# SMALL AND MINORITY BUSINESS IN THE DECADE OF THE 80's (PART 1)

---

## HEARINGS
BEFORE THE
## COMMITTEE ON SMALL BUSINESS
## HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
FIRST SESSION

LOS ANGELES, CALIF., JULY 7;
CHICAGO, ILL., JULY 18, 1981

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
84-524 O WASHINGTON : 1981

## COMMITTEE ON SMALL BUSINESS

PARREN J. MITCHELL, Maryland, *Chairman*

NEAL SMITH, Iowa
JOSEPH P. ADDABBO, New York
HENRY B. GONZALEZ, Texas
JOHN J. LaFALCE, New York
BERKLEY BEDELL, Iowa
FREDERICK W. RICHMOND, New York
HENRY J. NOWAK, New York
THOMAS A. LUKEN, Ohio
ANDY IRELAND, Florida
IKE SKELTON, Missouri
BILLY LEE EVANS, Georgia
CHARLES W. STENHOLM, Texas
ROMANO L. MAZZOLI, Kentucky
NICHOLAS MAVROULES, Massachusetts
GEORGE W. CROCKETT, Jr., Michigan
CHARLES HATCHER, Georgia
RON WYDEN, Oregon
DENNIS E. ECKART, Ohio
BYRON L. DORGAN, North Dakota
GUS SAVAGE, Illinois
BUDDY ROEMER, Louisiana
JOHN G. FARY, Illinois

JOSEPH M. McDADE, Pennsylvania
SILVIO O. CONTE, Massachusetts
J. WILLIAM STANTON, Ohio
WILLIAM S. BROOMFIELD, Michigan
DAN MARRIOTT, Utah
LYLE WILLIAMS, Ohio
OLYMPIA J. SNOWE, Maine
DANIEL B. CRANE, Illinois
JOHN HILER, Indiana
DAVID MICHAEL STATON, West Virginia
VIN WEBER, Minnesota
HAL DAUB, Nebraska
CHRISTOPHER H. SMITH, New Jersey
ED WEBER, Ohio
DAVID DREIER, California
GUY V. MOLINARI, New York
MARK D. SILJANDER, Michigan

Major L. Clark III, *Staff Director*
Thomas G. Powers, *General Counsel*
Lois Liberty, *Publications Specialist*
Raymond S. Wittig, *Minority Counsel*

# CONTENTS

Page

Hearings held:

Los Angeles, Calif., July 7, 1981 ... 1
Chicago, Ill., July 18, 1981 ... 137

Opening statements of:

Fary, Hon. John G., a Representative in Congress from the State of Illinois ... 143
Mitchell, Hon. Parren J., chairman, Committee on Small Business ... 3, 138
Savage, Hon. Gus, a Representative in Congress from the State of Illinois. 141

Testimony of:

Allen, LaVerda O., managing partner, Homitz, Allen & Associates, Oakland, Calif ... 75
Bates, T. Michael, vice president and secretary, Independent Truckers of Greater Chicago ... 237
Belanger, Maria, president, Precision Dipbraze, Inc., accompanied by Larry Wood, general manager ... 64
Boldt, Mel, chairman, Federal committee, Independent Small Business Association of Illinois ... 290
Brokenbough, Willa Mae, president, Willa Brokenbough Enterprises, Inc .. 5
Brooks, Frank, president, Chicago Economic Development Corp ... 143
Brown, Ron, vice president, Harrison Street Business Association, Oak Park, Ill ... 309
Calero, Jose, president, Latin Business Association ... 122
Claudio, Irma, given on behalf of Nelson Carlo, president, Abbott Products, and member, board of directors, National Economic Development Association of Illinois ... 228
Cummings, Cimena, president, TLC Co., Inc ... 335
Doench, Robert M., chairman, Small Business Council, Chicago Association of Commerce and Industry ... 328
Drake, Charlotte, executive director, South Shore Chamber of Commerce .. 317
Edelen, James H., III, president, NIPSCO ... 294
Feltenberg, Henry, president, Transwestern Diversified Consultants, Inc., and president, Black Business Association, Los Angeles, Calif ... 113
Fredrick, Eleanore L., Chicago Hook-Up of Black Women and Women of Color ... 225
Gevirtz, Don, chairman and chief executive officer, Foothill Group, Inc ... 66
Harrigan, Donna R., Regional Administrator, Region V, and John Smith, District Director, SBA ... 243
Harris, Margo, president, Multi-Pro, Inc ... 13
Jackson, Rev. Jesse, president, Operation PUSH ... 271
Jones, George, vice chairman of the board, Seaway National Bank, Chicago, Ill ... 275
Jones, Jerry T., chairman pro tempore, Concerned 8(a) Firms of Region V 285
Johnson, Leroy, vice president, Columbia Rustproof, Inc., accompanied by Stanley Johnson, president ... 297
Juarez, Al, acting director, Office of Small Business Assistance, office of the mayor, Los Angeles, Calif ... 104
Judge, Barbara, vice president, American Pacific State Bank, North Hollywood, Calif ... 27
Kim, C. Jay, president, Asian Business Association ... 117
King, Paul, director, National Association of Minority Contractors ... 166
King, Veda, president, Rayda Co ... 320
Neal, Margaret, E. G. Carpenter & Co., Inc ... 303
O'Neil, David, executive director, Chatham Business Association ... 304
Peyton, Babette U., creative consultant, SEE Productions ... 314

Page

Testimony of—Continued

- Rasmussen, Richard O., president, Space Vector Corp., Northridge, Calif... 45
- Rivera, Victor M., Director, Minority Business Development Agency, Department of Commerce, Washington, D.C ... 81
- Strauss, Robert, Acting Regional Administrator, Small Business Administration, San Francisco, Calif... 90
- Washington, Carl D., president, Teleport Oil Co., Inc., San Francisco, Calif... 33
- Williams, Joseph A., president, Arrow Services, and president, Chicago Regional Purchasing Council ... 219
- Williams, Vernon, president, West Side Charter ... 70
- Wortell, Marvin, president, Triton Metal Products, Inc., Chicago, Ill ... 325

Additional material submitted for the hearing record:

- Allen, LaVerda O., managing partner, Homitz, Allen and Associates, Oakland, Calif.: Prepared statement ... 76
- Arellano, Sam H., cochairman, Small Business Association of California, San Fernando Valley Chapter: Letter to Hon. Parren J. Mitchell containing recommendations for the small business community ... 133
- Bolker, J. R., president, Brighton International Development Corp., Los Angeles, Calif.: Letter to Hon. Parren J. Mitchell relating to high interest rates ... 130
- Brooks, Frank, president, Chicago Economic Development Corp.: Prepared statement ... 151
- Brown, Ron, vice president, Harrison Street Business Association: Letter to Hon. Parren J. Mitchell in support of testimony ... 309
- Cunningham, Dave, councilman, 10th council district, Los Angeles, Calif.: Statement ... 121
- Davis, Al, president, Source Publications, Inc., Emeryville, Calif.: Prepared statement ... 128
- Doench, Robert M., chairman, Small Business Council, Chicago Association of Commerce and Industry: Prepared statement with attachments ... 334
- Drake, Charlotte, executive director, South Shore Chamber of Commerce:
  - Exhibit A—News release announcing appointment of executive director and new project director ... 319
  - Exhibit B—News release entitled "South Shore Chamber of Commerce Launches Massive Membership Recruitment Program" ... 320
- Edelen, James H., III, president, NIPSCO: Prepared statement with attachment ... 296
- Farrell, Robert, city council, Los Angeles, Calif.: Statement ... 122
- Fredrick, Eleanore L., Chicago Hook-Up of Black Women and Women of Color: Prepared statement ... 226
- Harrigan, Donna R., Regional Administrator, Region V, SBA:
  - Contracts found in noncompliance with Public Law 95-507 ... 253
  - Prepared statement with attachments ... 261
- Harris, Margo, president, Multi-Pro, Inc.: Prepared statement ... 18
- Jones, George, vice chairman of the board, Seaway National Bank, Chicago, Ill.: Prepared statement with attachments ... 278
- Kilpatrick, Bob R., member of the board, Black Business Association, Los Angeles, Calif.: Prepared statement ... 115
- King, Paul, director, National Association of Minority Contractors: Prepared statement with attachments ... 178
- Rasmussen, Richard O., president, Space Vector Corp., Northridge, Calif:
  - Exhibits 1, 2, and 3 ... 50
  - Partial list of innovative contributions by small businessmen—Department of Commerce: 1967 ... 47
- Rivera, Victor M., Director, Minority Business Development Agency, Department of Commerce, Washington, D.C.:
  - Analysis of general business services grants awarded ... 98
  - List of policymaking positions held by minorities in MBDA ... 101
  - Prepared statement ... 86
- Stallings, Steven L. A., president, United Indian Development Association: Prepared statement ... 122
- Stallworth, Charles, president, Consumer Dental Products Co., Chicago, Ill.: Prepared statement ... 322
- Strauss, Robert, Acting Regional Administrator, Small Business Administration, San Francisco, Calif.:
  - Correspondence relating to correction of quoted statistics ... 100

Page

Additional material submitted for the hearing record—Continued
  Strauss, Robert, Acting Regional Administrator, Small Business Administration, San Francisco, Calif.—Continued
    Tables showing breakdown of primary services for fiscal years 1978-81 ..... 93
  Velasquez, Angelo, chairman of Minority Business Subcouncil/CRPC and president, A & R Janitorial Services, Inc.: Prepared statement ..... 281
  Washington, Carl D., president, Teleport Oil Co., San Francisco, Calif.: Prepared statement with attachments ..... 36

# SMALL AND MINORITY BUSINESS IN THE DECADE OF THE 80's (PART 1)

---

TUESDAY, JULY 7, 1981

House of Representatives,
Committee on Small Business,
*Los Angeles, Calif.*

The committee met, pursuant to notice, at 9 a.m., at the Los Angeles City Council Board of Public Works, 200 North Spring Street, room 350, Los Angeles, Calif., Hon Parren J. Mitchell (chairman of the committee) presiding.

Mr. Mitchell. Good morning. This hearing will now come to order.

First of all, I would like to introduce the persons up here with me. To my immediate left is Mr. Steve Blackistone, who is staff for the minority on the Small Business Committee. To my immediate right, Major Clark, staff director of the House Small Business Committee. Ms. Sarah Etheredge was just here. She is a professional member of my staff.

To my far right, I am just delighted that Congressman Mervyn Dymally has joined us. He is not a member of the House Small Business Committee; however, he has shown an intense interest in small business.

I know that you have a very tight schedule today, Congressman Dymally. But we do appreciate your joining us for at least a portion of this hearing.

In addition, we expect the following other Members of Congress to join us sometime today during the hearing: Congressman George Crockett of Michigan; Congressman Lyle Williams of Ohio, on the Republican side; Congressman David Dreier of California, who has indicated he might get here; and Congressman Mark Siljander of Michigan.

When I first became chairman of the House Small Business Committee in January 1981, I made a commitment that we would have at least four hearings out in the field. This is the first of such hearings, this one scheduled in Los Angeles. The second is scheduled for Chicago in about 2 weeks. We then plan a third hearing, and I don't recall the exact date, but that will be in Arizona. And the fourth hearing has not been finalized.

I am determined to follow through on that commitment, because I feel that the Members of Congress, the various committee chairpersons, and members of committees, simply must go out to hear from the people. There is simply no way that many small business persons can afford to come to Washington for a hearing. Their hotel expenses, travel expenses—many do come, but a whole lot of others do not come, simply because they cannot afford it. And I think we have to go out to the small business community, to try to determine whether or not the laws and the programs passed by the Congress of the United States are working effectively.

The Washington hearings are fine. We call these oversight hearings in Washington. Primarily, we try to hear from the agencies of Government that are related to the work of the Small Business Committee.

I have found in my 10 years' experience in Washington that it is absolutely imperative to do that. Very often we will pass a piece of legislation which is enacted into law, and we have found that in far too many cases the agencies simply do not follow the law. They may well propose regulations which are in conflict with the law—in some instances, not too many, we have seen agencies of Government simply blithely ignore a law passed by the Congress of the United States. A case in point was Public Law 95-507.

We are continuing to monitor the activities of the various agencies of Government in our Washington hearings. But as long as I am chairman of the House Small Business Committee, I would hope that at least four times a year we will simply come out into the various districts throughout the Nation to find out what the problems are of small businesses, how programs designed to help them are working, what other things Congress can do to assist the viability, growth of small businesses.

It is imperative that we do that. There are almost 14 million small businesses in this Nation. Those small businesses supply the bulk of the jobs that are provided in this country. Small businesses supply the bulk of the new innovative ideas in industry. And yet, unfortunately, we have witnessed over the last 3 or 4 years a steady decline, a steady loss of small business contributions to the aggregate business of this Nation.

On the other hand, we have seen large businesses constantly growing. And I think that that decline—I know that decline is of a great deal of concern to me. Small businesses are the backbone of this Nation. We simply do not want to see them lose in terms of their input into this country.

Whatever their losses are, the number of small businesses that we might lose each year obviously impacts negatively on the consumer. It has been our experience that in general small businesses can provide goods and services to the consumer at a lower rate than can the large corporations.

The administration has proposed a whole series of new programs, all of which are designed, according to the administration, to change the bleak economic picture that confronts this country. Along with those proposed new programs, the Small Business Administration itself has imposed certain rather stringent criteria that I think, adversely impact on small, disadvantaged and minority businesses.

For example, as is perhaps well known, the Small Business Administration has proposed a moratorium on any 8(a) new certifications. It has promulgated some new size standards. And along with these size standards, certain recommendations for the termination of small businesses which are now part of the SBA's program.

One recommendation that has come from the Small Business Administration is particularly disturbing to me; and that is, it proposes that some firms be graduated from the 8(a) program within 3 to 5 years. Their proposal flies in the face of two or three major studies that have been done which indicate that it takes somewhere between 15 and 20 years before a business has become viable enough to go entirely public.

So today we have a broad cross section, or we will have a broad cross section of the small business community testifying and in the audience.

We will begin to look at, I hope, what will be the impact of the proposed tax proposals from the administration, what will be the impact of the deep cuts that have been imposed upon the Small Business Administration.

I have an opening statement which I will ask unanimous consent right now that it be submitted into the record.

### OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. Mitchell. Good morning. On behalf of my colleagues of the Small Business Committee of the U.S. House of Representatives, I welcome you to the first of four field hearings this committee will conduct throughout the United States.

In January of this year—1981—I was elected chairman of the Small Business Committee of the U.S. House of Representatives. One of my first actions was to institute a policy for this committee to conduct at least four field hearings throughout the United States. There are two primary reasons for such policy. First, I have been in Congress for 10 years and during this period, I have heard excellent testimony from small business owners who were able to afford the high cost of traveling to Washington. Far too often, however, many small business owners cannot afford the financial burden associated with testifying before Congress in Washington. As a result of this, my colleagues and I have not been privileged to the excellent ideas of many small entrepreneurs throughout this Nation. Second, hearings in Washington are necessary. Congress must be able to solicit information from the administration's policymakers on how they are implementing laws passed to benefit the citizenry. Throughout my 10 years in Congress, however, I have witnessed a void between the laws passed by Congress and the assistance actually received by the intended beneficiaries. Thus, field hearings are necessary to ascertain the effectiveness of the administration in carrying out the mandates of Congress.

The small and minority business community is the foundation of this Nation's economic system. More than 98 percent of the commercial establishments in the United States are small businesses. Indeed there are nearly 14 million small businesses in this country. Unfortunately, data suggests the share of output being produced by small businesses has been declining, small businesses generated 43 percent of the aggregate output in 1963, 40 percent in 1972, and approximately 39 percent in 1976. This represents a decline in small business output of approximately 0.3 percent annually. During the same period large business increased its share of output by 2.4 percent representing an acceleration in its market share and aggregate output position. A large amount of evidence is available which supports a theory that this economic concentration results in inflationary overcharges amounting to approximately 9 percent of the gross national product. Small business is a victim of this process, but the biggest victim is the consumer.

Of parallel significance, the decline of productivity in the American economy is directly related to the decline in the small business sector. A Natonal Science Foundation study reveals that small firms produced nearly four times as many innovations per research and development dollar as medium sized firms and more than 24 times as many as the largest firms in a period between 1953 and 1973. Yet instead of encouraging small business innovation Federal procurement policy has stifled the incentives for innovation. Through the seventies small business received less than 5 percent of the Federal research and development funds while the largest firms, which by all indicated research are less innovative, received more than 50 percent of Federal research and development dollars.

In view of these conditions, it is critical that the administration begin to foster policies which will support small and minority businesses. To date, the administration's overall economic recovery blueprint is void of what I consider to be necessary strong policy directions for small businesses and especially minority businesses.

Some may argue that the majority of minority businesses in this country are small businesses and thus special assistance should not be given to minority businesses. Yes, the former businesses are experiencing many of the same problems as their majority counterparts. Unfortunately, however, racism and other barriers to the free enterprise system have placed a heavier burden on the development and maturity of minority businesses. It is for these reasons that in 1978 Congress passed Public Law 95-507. This law is designed to assist and to foster the development of socially and economically disadvantaged businesses. Public Law 95-507 recognizes that these businesses are not presently capable of competing with their majority counterparts, and therefore procurement, management, and technical assistance must be provided if the free enterprise system is to truly work for all Americans. In this regard, the 8(a) program was developed as a part of Public Law 95-507 to provide minority businesses with procurement and other business development assistance.

The 8(a) program has been the subject of extensive congressional review and criticism since its administrative conception in 1968 and statutory formulation in 1978. On May 1, 1981, Mr. Cardenas, Administrator of the Small Business Administration—SBA—announced new tough policies for the 8(a) program. A moratorium was placed on the admission of new 8(a) firms. 8(a) contracts with a value of $2 million or more must be approved by Mr. Cardenas. Advance payment and business development expense approval requirements have also been restructured. Also, on May 1, 1981, Mr. Cardenas authorized an immediate size standard review of all 8(a) firms "alleged" to be above SBA's definition of small businesses. Program termination procedures will be activated for 8(a) firms found to be above these standards.

In addition to the above, on June 1, 1981, Mr. Cardenas had published in the Federal Register proposed 8(a) Graduation regulations pursuant to Public Law 96-481. If implemented, these regulations will limit an 8(a) firm's participation in the 8(a) program to a 3- to 5-year period.

Today's hearing will focus on a cross section of problems and opportunities affecting the small and minority business community. Since January of this year, the administration has proposed a new economic recovery program, small and minority business program changes, deep agency budget cuts and business tax cuts. In view of this, I believe it is imperative that the Congress and especially this committee, begin a systematic investigation of the impact of such broad new policy directions on the survival of the small and minority business sector of this Nation's economy and on the ability of the Federal agencies to implement the laws of this land.

Witnesses appearing before us today will speak on these issues and on other issues affecting the survival of the small and minority business community. I am confident that at the conclusion of this hearing, we will have a better understanding of how policy decisions made in Washington are impacting the bedrock of this Nation, the small and minority business community.

I want to thank the staff and the mayor's office here. The mayor and his staff have been most helpful in assisting us to put on these hearings.

Do any of the minority members have written statements that they want to submit for the record now?

Mr. **Blackistone**. No, sir.

Mr. **Mitchell**. OK. I ask Congressman Crockett, whc has now joined us, and I am delighted that you have, if you have an opening statement? We would be delighted to hear from you at this time.

Mr. **Crockett**. Nothing at this time, Mr. Chairman.

Mr. **Mitchell**. Thank you very much.

Congressman Dymally, do you have any opening remarks?

Mr. **Dymally**. Thank you, Mr. Chairman.

Mr. **Mitchell**. I thank both of you gentlemen for being here. This is supposed to be our district work period. And for many citizens it is assumed we simply take vacations and don't do any work during that time. I know both of you gentlemen. You have been working just as hard as I have during this so-called vacation period, as it is termed by certain citizens who are not aware of what we have to do.

We are going to change our witness list around a little bit. By the way, let me apologize right now. I broke my glasses last night. I had a speech to make last night, and I borrowed someone's glasses from the audience. But he took them back. So I am having to work with partial vision today.

Is Miss Allen here? Is Miss Harris here?

If not, I know Mrs. Willa Mae Brokenbough is here. We will hear from you as our lead-off witness.

## TESTIMONY OF WILLA MAE BROKENBOUGH, PRESIDENT, WILLA BROKENBOUGH ENTERPRISES, INC.

Mrs. **Brokenbough**. Thank you, Mr. Chairman. I want to say it is an honor to appear before you and the committee today.

My name is Willa Brokenbough and my company is Willa Brokenbough Enterprises, Inc. doing business as Willa Brokenbough Parties.

I have been in the food service business since 1941, first as a worker, then as sole owner of my business, and now as a corporation.

I have been working with the Government since January 4, 1972, when I received my first solicitation from the Small Business Administration as an 8(a) contractor. It opened up a new world for me and my family. Even with the expert help of the SBA negotiators, Mr. Don Templeman and Mrs. Amanda Gallegos, it took 11 months to finalize that first contract. I was handed the signed contract at 5 p.m. in Los Angeles to start the contract at 4 a.m. the next morning at Edwards Air Force Base, with a complete inventory to be done starting at 12 midnight. I was 2 hours from the jobsite. My son Jack and I, with a skeleton crew, opened the job, fed over 250 personnel in 2 hours, and had a picture taking session with General Lane during that time.

That, gentlemen, was my introduction to life with the Government food service. As you can see, even though I enjoy my work with the Government, it does have its pitfalls.

As I said, before I started with the Small Business Administration sponsorship, I had my own catering business. It was small and struggling, but growing, and I was making a modest profit. Today, we are incorporated and, with the Small Business Administration as our prime contractor, we are doing very well.

Our present meal output for the various military installations is over 100,000 per month. We have worked at facilities from California, to Alaska, to Washington, D.C. Some were won in open competition by skills taught us by the Small Business Administration.

The Small Business Administration negotiators have always stressed that we should stand on our own two feet and use them as a helping hand only. This we have tried to do and have succeeded to the point where we are now allowed by the Small Business Administration to conduct our own negotiations with Government procurements but we still have not reached the point of viability in the open market. This is our weakest link. While we are now able to talk directly to Government procurements, seek the jobs we want, and obtain them with the backing of the Small Business Administration, these same procurements would not talk to us if we lose our 8(a) status. There would be no incentive for them to do so.

As an 8(a) contractor we have been allowed to progress and to hone our skills until we were finally chosen by the Small Business Administration as the "Regional Prime Contractor of the Year for 1981" for the Western United States, including Hawaii, an election which has made cloud 9 our home.

It has not always been easy. In trying to become viable in the commercial market, we have met with many difficulties. Government solicitations of the type we have become accustomed to are entirely different from the commercial solicitations we have received. For example, the Government RFP is laid out in detail as to the services wanted, even as to how to mop a floor. Did you know there is a difference between wet mopping and damp mopping? The Government says there is in four paragraphs. With this type of solicitation you can put a price to every stated need and figure out your labor. They will answer your questions and even delay the opening date, with sufficient provocation.

With the commercial RFP's that we have received, the terms are couched in a different language. For instance, we are asked to state the terms and conditions most favorable to us and the company that sent the proposal. When you ask exactly what is meant, then you are met with "Oh, haven't you done this before?" and you get nowhere. We get the tour, and all questions there are answered as to facility, layout, and the like.

After we submit our proposal we are often asked to come in for the oral interview. That is a big step forward. So far we have always been told that we are in the ball park as far as prices and format is concerned. However, we are finding that there seems to be some unwritten rules that we cannot find the answer to.

For example, one told us that we didn't put a dietitian into the package, when none was required in their solicitation. The company who received the contract is charging our prices, but we have no guidelines to learn the intangibles of commercial work.

In order for a small contractor to become truly viable in our line of work, we believe we need the same firm guidance that was given us as an 8(a) contractor, such as a stated length of time for marketing knowledge to be made available.

In our case we have come from a first-year business of $5,000 almost 10 years ago to a gross of over $2 million a year with the help of the Small Business Administration. When the business was started, I was it. Only me. The company now employs over 300 people, with all the attendant taxes paid by them and by us.

We look back with a high degree of satisfaction to our alliance with the Small Business Administration. If that alliance is severed there is no comparable marketplace for us to go on our own at this time. Our learning curve has not been completed. We are just now beginning to enjoy the fruits of our labor by having prime contractors ask us to bid with them, all due to the Small Business Administration, Public Law 95-507, and our own hard-won track record.

We know there must be many major companies/corporations that would be willing to take a chance with a small contractor with our track record. We do not know how to find them. This is where we do need the interim assistance from the Small Business Administration to be a truly viable company.

In compiling that record we have been taught some strange things, one of which is how not to make a profit. In Government military facilities where we are, we must stay as close to zero as possible on the food cost. We have a 2-percent leeway up or down and that is all. It does teach close control. Our menus are set and limited; therefore, you cannot go by patronage acceptance to set menus and prices as you would commercially. Again, we have our catering advantage. In commercial life the opposite is true. You better make a profit or you go out of business.

In our Government work you do not learn the prices of food in the wholesale market, nor do you get to know the best places to buy because all food and supplies, except janitorial, is generally done through the Government. Our advantage there is that we do have a catering and restaurant business, therefore we keep up with the current prices.

Equipment and its maintenance and utilities are another area where contractors do not keep abreast because it is done by Government. In many commercial firms, the dining rooms and kitchen are also in place but many firms in the State of California also ask the contractor to put in his equipment for a contract that will run for a good number of years. You can lose money, and the contract, by not knowing the right places and products to buy. Again, we personally have an advantage due to our catering and restaurant business.

Contractors cannot develop a good working relationship with food or equipment companies while working with the Government. You buy neither one outside the Government parameters. There are times when you bid commercially that this relationship is a distinct advantage. As an example, you can cut initial startup cost to practically nothing by arranging delayed payments with companies that you know. Without that edge you most often will have to put out advance moneys in order to obtain your supplies. Many small contractors do not have the extra money.

The Government requires that you follow the Service Contract Act for your labor force. Contractors, commercially, are use to the State laws, the Fair Labor Standards, and even the Walsh-Healy Act. When the Service Contract Act is added to his workload, it often becomes so confusing that even different branches of the Department of Labor will give you different answers. The small contractors who have previously employed 8 to 10 people may find themselves in trouble with the Department of Labor without even knowing how they got there.

We feel that if the Small Business Administration could give some guidelines on the laws to new contractors that it would help greatly. Even finding a lawyer that specializes in labor law is not easy. And not all lawyers know labor laws, especially Federal labor laws.

We also feel that the minority business development is not a giveaway program. As a minority, if it were not for the help we get from programs such as this, we could never have broken into the Government market as we have now.

Last, but not least, wages paid to food service workers are not indicative of the wages paid by industry. The unskilled worker in most restaurants that we know, even highly successful ones, pay minimum wage or close to it unless they are union. We have received solicitations from the Government with wages from minimum to over $5 per hour for the unskilled worker. Skilled workers, such as cooks, bakers, and supervisors are underpaid according to industry standards.

A good example is Lancaster, Calif., a small town where cooks are being paid $7 per hour and the military base is paying $6.10 per hour and the cooks must drive 40 to 50 miles one way to go to work. Small business contractors who have dealt only with Government do not know the differences between industry and Government wages.

In closing, gentlemen, as you can see, there are many inherent problems which must be faced by small business contractors dealing with the Government sector as opposed to the private sector. Hopefully, as a result of the testimony presented to you today, your committee will be able to arrive at some viable solutions which will be advantageous to both the small business contractor and the Government side of the house.

Mr. **Mitchell**. Thank you very much for your testimony. I have scribbled down questions as you were presenting your testimony. Portions of it are very provocative. I think we will start off with a question by Congressman Crockett, then Congressman Dymally.

I am delighted that Congressman Siljander has joined us.

Congressman Crockett?

Mr. **Crockett**. Thank you, Mr. Chairman.

Mrs. Brokenbough, I want to express my appreciation for your testimony here today. I notice from your testimony your business has progressed in about 10 years from a $5,000 business to a $2 million business; is that right?

Mrs. **Brokenbough**. That is correct.

Mr. **Crockett**. Do you still consider yourself a small business?

Mrs. **Brokenbough**. Yes, sir, I do. I would like to make $102 million.

Mr. **Crockett**. Well, that may be true. But you still consider that a small business?

Mrs. **Brokenbough**. Yes, I do consider that a small business, especially in view of what can be done in the marketplace where I am. Because there are some of the larger companies like ARA, ABC, some of the big firms, they get, if you are able to get into the commercial market, some of the jobs that they are able to get, that is a small job to them, a very small job.

We have received solicitations—right here in Los Angeles—where we were not able to bid for the Convention Center, because the insurance alone, at the time we received the package, was over $1 million a year. And you have to be able to have enough gross that you can afford $1 million insurance. So only making $2 million gross a year, I could not afford that kind of insurance.

Mr. **Crockett**. But there are a limited number of small businesses that the Government will be able to help. So that sooner or later small business has to graduate from the program. At what point in time or what profit level do you think a small business should be graduated from the program?

Mrs. **Brokenbough**. I don't think it really has much to do with the profit level. I think it has more to do with learning how to get out of the Government side of the house into the commercial field. And that is the difficulty that we are experiencing right now. As I said in my speech, we have learned quite a bit. But trying to make the transition from the Government side of the house, which we know well, to getting over into the commercial market, we find many difficulties—one which I just spoke to you about.

Another one is learning how to present the commercial packages successfully. They are not done like the Government procurements are. And as I said, there seems to be a lot of intangibles that are not in the package, but yet they expect the contractor to know that these are things that you should put in there.

Another example on that same line—when we tried to bid for Mira Loma, again here in Los Angeles, we found that we should have put in a lot of ideas, a lot of things that we wanted to do for that particular package. We should have put in a whole statement about the kind of background that we have, what we have done up to that point. It doesn't tell you in the packages to do this.

These are intangibles—somebody has to teach you. We are learning by trial and error. But it takes a little while to do it that way. In the meantime, if I am out of the Government side of the house, then we have nothing.

Mr. CROCKETT. Does your company retain a lawyer on a regular basis to advise you concerning these legal matters?

Mrs. BROKENBOUGH. Yes; we do have an extremely good lawyer. He is the ex-FBI director of the Los Angeles region.

Mr. CROCKETT. Thank you. Thank you, Mr. Chairman.

Mr. MITCHELL. Congressman Dymally?

Mr. DYMALLY. Thank you, Mr. Chairman.

Mrs. Brokenbough, you are headquartered here in Los Angeles?

Mrs. BROKENBOUGH. Yes; I am.

Mr. DYMALLY. Most of your Government contracts are in southern California?

Mrs. BROKENBOUGH. Yes.

Mr. DYMALLY. Are you required to have bonding capacity for service for the Government?

Mrs. BROKENBOUGH. Yes; we are required to have bonding on some of the jobs.

Mr. DYMALLY. There has been a tremendous amount of complaint from minority businessmen and women that they have difficulty getting bonded. Could you tell us a little bit about your bonding?

Mrs. BROKENBOUGH. We had a terrible time getting bonding. And it wasn't because we had the assets—that we did not have the assets. We did have the assets. But we had a terrible time getting bonding.

In one instance my lawyer even put up his home, which is over $1 million, in order for us to get the bonding. We were still refused. Then finally, through his help we were able to get bonding.

Now, I cannot say what the problems were as to why we didn't get it. I do know we did not get the bonding.

Mr. DYMALLY. Mr. Chairman, I wanted to draw this matter to the attention of the committee, because this is a continuing point on the part of minority businesses, the whole question of bonding.

Thank you very much.

Mr. MITCHELL. Mr. Siljander?

Mr. SILJANDER. No questions, Mr. Chairman.

Mr. MITCHELL. We will get you on the next go round.

Let me also congratulate you on your award for this year.

Mrs. BROKENBOUGH. Thank you.

Mr. MITCHELL. And on the tremendously remarkable way in which you built a business, starting from zero and moving to what appears to be a very productive and viable firm with 300 employees.

Mrs. BROKENBOUGH. Yes; that is correct.

Mr. MITCHELL. All of them are full time?

Mrs. BROKENBOUGH. Most of them are.

Mr. MITCHELL. When you first got started, you applied for your 8(a) certification. In your testimony you indicated that a great deal of assistance was given to you by personnel in SBA.

Mrs. **Brokenbough**. That is correct. I knew nothing whatsoever about it.

Mr. **Mitchell**. Yet it took 11 months to get that done. Are you in a position to tell us why it took what appears to be an inordinately long period of time to get your certification?

Mrs. **Brokenbough**. I am really not quite sure. I know that at the base where I first started they were very, very leery of going into any type of contract work. We were the first contractors on that base. They are especially leery of having a black woman do that work. They just didn't think that we were able to do it, because we were such a small firm. And SBA had to do a very good selling job. I have been there now for 9 years.

Mr. **Mitchell**. Do you have any commercial contracts at all right now?

Mrs. **Brokenbough**. We do have some that we have won. They are Government. We have no true commercial contracts at this time, except very small ones.

Mr. **Mitchell**. Let me pursue a line of questioning that Congressman Crockett opened, and that is on graduation.

In my opening statement, I indicated that Mr. Cardenas, the present Administrator for the Small Business Administration, has proposed that 8(a) firms be graduated in 3 to 5 years. Also, in my opening statement I expressed strong opposition to that, because by studies requested by the SBA itself we know that that is not a sufficient length of time in most cases for a business to be graduated. But as Congressman Crockett has indicated, sooner or later you have to be graduated.

Have you been thinking about the point in time when you believe that you will be able to operate independently of 8(a) support?

Mrs. **Brokenbough**. We have been trying very hard to break into the commercial side of the house, as I said. We have just now reached the point where prime contractors of the United States, people like Boeing, Lockheed, these type of companies, have heard of us and they are looking at us, and they are now starting to ask us to bid with them. So far we have not been successful.

By bidding with them, I mean they get a large job, where they have a food service part of it, and they will ask us will we give them a bid on this part of the contract. So far we have not been successful. But we are trying very hard to get into the commercial side of the house. But as of right now, we really have not been successful with it. We are just starting this. But it has taken us 10 years to get to this point.

Mr. **Mitchell**. Are you aware of an agency known as Minority Business Development Agency?

Mrs. **Brokenbough**. Yes.

Mr. **Mitchell**. Have you worked with them at all? The reason I pose the question is, it seems to me that that is the agency that ought to be working with the private sector to facilitate movement from the 8(a) program into the private sector. Have you had any discussions with that agency at all?

Mrs. **Brokenbough**. Yes; I have had some discussions with them. So far they have not been able to give us any help.

Mr. **Mitchell**. What specifically did you ask for?

Mrs. **Brokenbough**. Well, as I said, we have been trying to get into the commercial sector, so that we can stand on our own two feet, because, as you know, right now as an 8(a) contractor most of our programs are with Government. And if that is taken away from us, my company at this point would just fold, because we don't have enough to sustain us without the Government work that we now have.

But we had asked them to help us get into that commercial side of our work, so that we can stand on our own two feet. So far they have not been able to do anything for us. They have not even given us any places where—people we could talk to. Nothing of that nature have we received.

Mr. **Mitchell**. Thank you very much for your testimony.

Congressman?

Mr. **Siljander**. I am sorry I wasn't here to hear your complete testimony. I am intrigued by the idea that you are trying to be self-sufficient in a free market. I am encouraged by that, too.

What can Congress and the SBA do to help encourage you and direct you out of the 8(a) program? What can we do to help you obtain Government contracts without 8(a)? And what else can we do to be more productive in that area?

Mrs. **Brokenbough**. Well, I think I said in my testimony that I believe that we need the guidance from either SBA or some agency that can help us bridge that gap, tell us—OK, prime contractors are getting such and such jobs, they also have this, this is an area where you can go. And they can help us bridge that gap by getting us in touch with the people who have the jobs. Because we don't know how to reach them. We find when we send letters out to the various companies, which we do all the time, you don't always know who to send it to. It reaches the wrong person. And a lot of times it winds up in the wastepaper basket. When we go and make a call and ask, did you receive my letter, I sent it to so and so; and he is no longer there. It is hard to get through the maze. We need a guiding hand to get through that.

Mr. **Siljander**. So you are saying right now there are still problems of excessive redtape?

Mrs. **Brokenbough**. If there is, we have not found it yet.

Mr. **Siljander**. OK. Thank you.

Mr. **Crockett**. May I inquire?

I don't quite understand what you mean when you say get into the commercial sector. Am I to gather from that that all of your work is for Government agencies and you do not get any contracts from the commercial establishments like Boeing, you mentioned, I think?

Mrs. **Brokenbough**. That is right. So far we have none of that nature.

Mr. **Crockett**. You are listed with these commercial agencies that would have need for a catering service; is that right?

Mrs. **Brokenbough**. We list with everybody we can find.

Mr. **Crockett**. Are there any other black comparable catering services in the area?

Mrs. **Brokenbough**. I hope not.

Mr. **Crockett**. So that given a situation where a Government contractor like Boeing is required to follow a fair employment practice program, for example, they would have to come to you so far as catering is concerned; is that right?

Mrs. **Brokenbough**. I believe that is a true statement. I really don't believe that there is any other comparable catering service in Los Angeles like ourselves.

Mr. **Crockett**. Thank you, Mr. Chairman.

Mr. **Mitchell**. And thank you.

Just two observations from me. First, this afternoon we will hear from Mr. Rivera, who heads up the Minority Business Development Agency. And certainly your experience with that agency will be brought to his attention during our questioning. I, like you, feel that that is the agency that ought to help provide the bridge. In your case apparently this has not been done.

Second, I think a part of the problem of breaking into the private sector is—it has been my experience that many persons and companies, corporations in the private sector will say, look, I have been dealing with this firm for the last 10 years, they have been supplying my food services, or they have been supplying my tool and die services—it would be a breach of faith on my part if I broke up that relationship. It is a thorny problem that I don't expect you to answer. I think the Congress has to wrestle with that problem of institutionalized patterns in the private sector, which are not necessarily bad in and of themselves, which mitigate against the entry of minority firms. We will discuss that with Mr. Rivera this afternoon.

Thank you very much for taking your time and giving us your very helpful testimony.

Mrs. **Brokenbough**. Thank you.

Mr. **Mitchell**. Our next witness is Miss Margo Harris, president of Multi-Pro, Inc.

Miss Harris, thank you for being with us this morning. We have a copy of your prepared statement. You can submit it in its entirety for the record and talk only to the highlights or present it in full. It is entirely up to you.

## TESTIMONY OF MARGO HARRIS, PRESIDENT, MULTI-PRO, INC.

Miss **Harris**. Thank you. I will submit it in total. I will emphasize the areas that I think need to be emphasized.

Mr. **Mitchell**. Without objection, the entire prepared statement will be submitted for the record.

Miss **Harris**. OK. In my prepared statement, I deal with the things that I could truly say had affected me, and I dealt with them in the only way I knew, based on my experience.

I dealt with the direct loan program, which is a facet, whereas in SBA I was given to believe for approximately 3 or 4 months that this was available. After dealing with an agency that could explain to me those kinds of loans to anywhere from 1 year to 18 months to acquire, it was totally unrealistic to think I could wait for that timeframe.

In dealing with that, I think I explain that in my prepared statement. And from that we went to the next phase of my prepared statement, which was the loan guarantee program. It took quite a bit of time to get that one through, get the approvals through SBA and back to me. I think the whole process, utilizing the agency funded through the Federal Government to help secure those kinds of loans for minority businesses, even their method of going about helping you was so outdated that we looked at months in trying to pull together what was considered a feasible loan package for a bank to look favorably on. And we wind up having to have it done outside with an accounting firm that dealt with it in a manner that we needed, and was able to present this to the bank, which ultimately we received our funding.

In dealing with that, one thing that was really of concern to me was that the agencies that are funded to, in fact, support or help minority business should be allowed, or should be capable of doing just that. Because as a small business you deal with really tight time restraints. It is unrealistic to believe, especially in my field as a manufacturer, that I can wait for 1 or 1½ years for funding to actually get into a process, or the goods out of the door. The timeframe that was used was something that I thought could have been shortened by at least 1 year.

I think in my prepared statement I express, too, some of the agencies that I went to for help, and the process that went on, and the timeframe that it took to make these things happen.

I think that some of the service companies like you had spoken to earlier, your Business Development Agency, have improved over the past years tremendously. I think that the services that we are now starting to give to minority businesses are some things that would be very viable. I think it shortens the process of funding and financing. I think those things should be emphasized and worked with.

My other concern as far as funding is concerned is the MESBIC. I have been told through my MESBIC, they were losing their Government matching funds. I think that is a catastrophe. Because I can truly say, even with the SBA program, moving from a distributor to a manufacturer would have never been obtained for me had it not been for the MESBIC.

Venture capital companies seem to take more risks. They seem to have a larger—I am not saying all, because I know there are some that people have had bad experiences with. I was fortunate. I dealt with Equico Capital, who is the largest MESBIC in the United States. Their process was very realistic. Their timeframes and restraints were extremely helpful. And we have been able to have a harmonious relationship. I think even now as I go back to them we have always been able to work out what my needs were.

It would be a real tragedy if we lose that kind of thing. I think truly we need to have MESBIC's around, because they can take chances that a bank cannot take, and even with the guarantee banks are not willing to do or put the kinds of risks out that would be mandated to truly support minority businesses.

The second thing that I would like to truly put emphasis on—I am an 8(a) contractor. My 8(a) process, to a period of time that was totally about 18 months for approval. It took me approximately 12 to 13 months to even get them to entertain the fact that as a manufacturer of casters, material handling items, and selling and distributing scaffolding, that I even qualified under the 8(a) program. And I think the thing that I found most ridiculous in that whole process was that each of them that signed, up to signoff, tried to say there was no support in the Federal sector for the items of goods and services that I manufactured on an ongoing basis. I rode up to their desks on casters, which was part of the procurement that the Government spends each year to buy these items and in knowing that it was just unrealistic that it would have been a thing that they said the Government had no need for.

In dealing with that, I finally had to approach Eugene Baker, who is the president of my trade association in Washington, D.C., to assist me in going over to get an interview, because I had been told 3 days in a row that they were in staff meetings. I do understand that each executive has to have staff meetings. But for 3 days? After Mr. Baker called, we did finally get in to speak to one of the representatives of the 8(a) program. And his remark to me was that I hope that you can understand our reluctance in dealing with this problem, because we are dealing with a lot of front firms. But I think it would have been more realistic after seeing this had come across their desk not once but 3 times that somebody would have investigated if, in fact, we were a front firm. I think a lot of firms are being pushed aside based on the blurb, which is what he expressed to me what he has to go by, a one-sheet document that gives him very little information on what my company's capabilities are or who the true owners of this company are. And if that is a criterion for improvement, then that should be submitted at the same time that that blurb is submitted, that these are things that should be dealt with.

After getting Eugene Baker to assist me in getting this through, I was told shortly thereafter that I had been approved as an 8(a) contractor. I was at that time given to believe that it would take a matter of a month or two for me to receive my 8(a) certification through the mail. That was in July 1980. I received a signoff that I had been approved in December, and it was signed off on November 4.

Even after accepting the fact that not only did they have contracts that would sustain me being an 8(a) contractor, it still took approximately 4 months to just get a letter signed off on, the processes of going through regions, district, and then through central. And that is very timely, which would deal with a lot of significant facts, since the Government has your yearly procurements that go out, and based on that time you lose, that time is time that the contractor is losing opportunities to increase his gross sales per year. I think that is something that should be looked into and dealt with.

My other thing is that there is really a great myth going around that the 8(a) program is a gravy train, or that in fact it is being exploited or taken advantage of. It is kind of hard to conceive, for me to conceive of how anything could be called taking advantage of when in fact in 12 years—and I would refer to the testimony that Mr. Eugene Baker of the National Association of Black Manufacturers gave—my figures are somewhat off in my prepared statement, his are a lot more accurate based on the studies he had performed and the information he had available to him—as to the total amount of contracts awarded under 8(a), and the total amount of purchases that the Federal Government makes on a yearly basis. And when you look at the Defense Department, in 1 year, allowing two contracts that exceeded every dollar volume that had been done on the 8(a) program over a 12-year period, I cannot find that exploitation of the program. I cannot see where the firms that are on the 8(a) program are riding some kind of gravy train, whereas they have these contracts that will make a minority community viable. I think that until that myth has been dispelled, it is going to be really hard for us to create the jobs needed in our community or the kinds of firms, manufacturing and service firms, that can allow this to happen.

We are not fooling ourselves that majority companies are not coming back into our communities. And the only way we are going to increase employment and deal with the economic survival of a group of people is to be able to employ our own. And if in fact we are looking to this administration for economic parity, it will only happen when firms are allowed to grow at a rate, reasonable rate, and can compete with the majority corporations. And that we will be able to build some of the 1,000 top firms in the community which will allow us to sustain our community with the jobs needed on an ongoing basis.

The only contract that I have received from 8(a) was a contract which was a $26,000 contract. The contract was increased recently to a $70,000 contract. In performing on this contract, I bid it on the contract—$1.54. It was told to me that that price was unrealistic, and if I could meet the price that was given the prior year of $1.34, I could receive the contract.

I expressed to them at that time that that would be something that I could definitely entertain and do if I was allowed $6,000 for the die that it would take to perform on a clip that was needed by the Air Force base, an antenna clip. They said no problem. And that is so realistic, it is within the restraints we would be looking at for BDE to perform on this. And I think this should be pointed out, this was not an item that would have been found on someone's shelf. It was a spec item, made to specs. So it was mandated this die be built if in fact they expected a minority firm to perform on it.

The BDE was denied. It was denied under the auspices that that was not in my business plan, which I think that if anyone on the panel took the time to review my business plan, from the first one I submitted to the last one that they finally approved, I think they will find out that I stated in that that I did steel and aluminum fabrications and I am sure the clip would fall under that category, since it was a steel-fabricated item.

The BDE was refused. I had to go outside to borrow from a private source because my lending capital with the bank had been used to its fullest—to buy the die to perform on this contract.

Now, realistically, if in fact BDE and advance payment were not put into effect so that minority firms can, in fact, get the tooling and the machinery to allow them at that point to meet the price that the Government is paying for a particular item, and then to have that individual refused that luxury or the need, then it is totally unrealistic to believe that we can meet a price when just commonsense tells you that on a year-to-year basis everything that you buy has been increased.

My steel costs are higher; my labor costs were higher; my overhead for utilities, based on the cost-of-living increases in my lease, are higher. And I am supposed to meet a price that someone else met a year ago at $1.34 with no help at all. I just cannot conceive of that being fair or realistic if, in fact, that is what the program is supposed to do for minority business.

The other thing that I found really ridiculous in this contract, and I can only relate to the ones that I served on—in having me meet a price of $1.34, they had myself and my staff go out and get multiple quotes on steel, on labor, on heat treating, on all the things that it would take to make this an end product. And I cannot see, when you have already had this put into your hands from a prior year, these things happening.

The cost that it costs a small business to put this information together, just for their in-house needs is more than enough. When you have to go out and pull together all the increased documentation that they demand that you pull together under an 8(a) program, that is totally unrealistic, especially when you are meeting a price that they have already designated you have got to meet before you can even be awarded the contract, and you are meeting a price that was done by a majority company the year prior to me receiving the contract.

I think that the other thing that I would like to address is Public Law 96-481, which is dealing with the graduation of 8(a) firms. As a manufacturer, and as it has been said already by you, and I am sure everyone else that has testified in these hearings, 3 to 5 years is totally unrealistic, because you cannot look at majority corporations that build companies in 3 to 5 years. The study is done on an ongoing basis. I can truly say, because I have had 5 years of business experience, that as a manufacturer there is no way possible had I not had the 8(a) program to assist me for any longer than a 9-month period—I cannot conceive it happening in this day and age with inflation and everything else, with the cost of machinery, dies, and equipment to work on an ongoing basis, 3 to 5 years for a manufacturing concern or a service-oriented business, based on what their needs are and the needs they are filling in the community is totally outlandish.

If in fact there is going to be viability in black firms or minority firms as a whole, I think that something, seriously, should be done about that. I think that the time restraints, if there were any, should be somewhere between 7 to 10. And I would realistically say that that would be a realistic figure, based on what I have experienced over the 5½ years I have been in business.

Graduation is definitely a thing that I think everybody knows will happen. It must happen so that new firms can get on the program and build the same kind of thing. But I think that until, along with Public Law 96-481, Public Law 95-507 is implemented and there are some real restraints put on prime contractors to make it a mandate that they comply with the law as it has been written, instead of finding a half dozen or more ways to circumvent subcontracting to minority firms, that it is impossible. You cannot graduate a program, an individual off of one program, to push them out into a community that will not comply with the subcontracting rules; nor will they even entertain, for the reason that you stated earlier which was so obvious—that they have been doing this with George for 35 years, so why should they change now—into an area where you cannot get the support you need to remain viable or to keep your employees employed, or to create a tax structure in your community, or to build strong and viable communities. And I think that those two things have to be considered in maintaining and graduating firms from the Government sector of the 8(a) program into the private sector. And, however, it is necessary to do that, I think that that is something that should be truly entertained.

I think I have touched on just about everything, other than I truly believe in my own mind that minority business is the best thing that has happened to the free enterprise system and I do think that we do have a place in the free enterprise system. I just think that something will have to be developed to make this a realistic fact.

Thank you.

[Miss Harris' prepared statement follows:]

## PREPARED STATEMENT OF MARGO HARRIS, PRESIDENT, MULTI-PRO, INC.

Multi-Pro, Inc., a company I started in 1976, was two years old when I started trying to identify outside financing. After appoaching several lending institutions I was told that I had not been in business long enough to qualify for a conventional business loan, but should try to secure funds through the government SBA program.

Totally unfamiliar with the SBA I approached a banker to find out the kind of loans available through SBA. I was seeking a loan to allow me to expand my business from a distributorship of several various products to the manufacturing of some of those same items. During my two years in business I had already acquired much of the machinery that made such an expansion feasible and had both the personal experience and manpower on board my staff to support such an endeavor.

I was informed that SBA's Direct Loan Program would best suit my needs. Upon contacting SBA I was told I needed a Business Loan Package prepared prior to consideration for direct funding. I could receive assistance in preparation of this package, I was told, from OMBE or some similarly funded government agency. I was not told that SBA had a 12 to 18 months waiting list at that time for Direct Loans, nor was it suggested to me that I might want to seek some alternative SBA loan assistance.

I went to the OMBE Agency located on Wilshire Boulevard, and upon a review of my company was informed I had a very viable business and pulling together a loan package would not be a difficult task. I was counseled on three occasions, during which times I provided all necessary information and documents as requested. On all occasions and during subsequent telephone conversations I was assured things were progressing towards finalization. Four months after my initial contact with this OMBE Agency I called one afternoon to check on the progress again and was informed my package could not be completed because the agency had not been refunded by the government and would be closing its doors. It was suggested by this agency that I contact another government funded agency—TELACU, in East Los Angeles, who serviced much of the Greater Los Angeles area—to continue with my loan package.

I went to TELACU and started the loan package process all over again since the OMBE Agency did not provide me with anything but my returned documents when they closed. TELACU assured me that they could prepare a package for me in four weeks. As we got into the preparation of the package it was at this time I was told SBA had a 12 to 18 months waiting list on Direct Loans and a SBA Bank Participation Loan might be more in line with my needs and time frame.

Six weeks later, I approached my bank with the loan package TELACU had prepared and was told they did not handle SBA loans on a branch basis, but had a SBA Loan Center. She recommended that I might want to approach a smaller bank first since many of them were interested in SBA loans. I took my package to Continental Bank in Alhambra, California, requesting a $225,000 loan.

Upon review of my package Continental Bank's SBA Loan Officer informed me and my representative from TELACU that the loan package was less than acceptable. He further stated that the manufacturing of Casters, Scaffolding and material handling items was not a field he had much confidence I, as a woman, could be successful in and the bank would have difficulty approving such a loan. He suggested that the loan package be restructured and resubmitted and the loan request lowered to between $100,000 to $150,000 after which the bank would be more receptive.

Two weeks later, the counselor at TELACU who was handling my loan package was fired during an internal upheaval in that organization and many of my documents, such as the deed to my house, and the package he was reworking were misplaced and never found. My attempts to continue working with TELACU soon became futile since no one knew anything about my package and the lines of communication became very strained.

At this point I decided it would be far less expensive for me to hire an accountant and prepare a loan package myself. Fourteen months after my first call to the SBA office, Continental Bank approved a SBA Bank Participation Loan for $145,000. Six of those fourteen months was due to the hesitancy of the bank to approve the loan not from the strength of the corporation but from the point of view I as a woman could not make it work. The majority of the remaining time was spent in wading through the bureaucracy of unperfected systems promoted by SBA and other government agencies which are totally unconducive to the time frame needed by small businesses for survival.

It is unreasonable to assume that a small business can identify a need for financial assistance fourteen months in advance of that need. Statistics support that many small businesses fold prior to approval of financial assistance through SBA. This is one of the problems I hope this committee will alleviate.

The SBA Bank Participation Loan did not allow the financial leverage needed to realistically expand into manufacturing and my secondary funding was with Equico Capital Corporation, the SBA MESBIC Program of Equitable Life Assurance Corporation. This loan package was prepared and submitted within a three week period of time by my accountant and I along with Equico Capital Corporation approved the $275,000 loan within a six month period of time.

My relationship with Equico Capital has been a very harmonious one and it gravely concerns me that MESBIC's such as Equico are currently losing their matching government funds.

Once my SBA loan was in place my SBA counselor recommended that I make application of 8(a) certification since the items I was manufacturing were used in quantity by the federal government and few if any female and/or minority firms were supplying the government with these items. I did make such application and was rejected, not once but three times during a 13 month period. I was told that the government had no need at that time for the goods we manufactured. At the time each of these rejections documents were being signed, the signee rolled up to sign them on casters that were most certainly a part of a yearly solicitation for casters awarded by the government that were among the lines we manufactured.

It was not until June 1980 when I, along with Eugene Baker, President of the National Association of Black Manufactures, a trade association of which I am a member, met personally at SBA's central office in Washington, D.C. with an 8(a) representative that I was told the reason I had been repeatedly rejected for 8(a) certification was because all he'd ever been provided with regarding Multi-Pro was a single sheet blurp that did not lend credence to the realism of a minority female manufacturing casters, scaffolding and steel fabrications. I could understand, he reasoned that since there had been a barrage of adverse publicity concerning 8(a) front firms, Multi-Pro had on the surface appeared questionable and had arbitrarily been rejected. No one had taken the time to investigate Multi-Pro itself to determine its legitimacy. Shortly thereafter, I was approved as an 8(a) contractor and five months later I received my 8(a) certification on November 4, 1980.

Contrary to some public opinion of the 8(a) program has not been a gravy train for Multi-Pro, nor by any stretch of the imagination do we ever anticipate it being. To date, we have been awarded one 8(a) contract for $26,000; that was recently amended to the sum total of $70,000. This was not an item that Multi-Pro nor any other small business would warehouse on a continuous basis. It was an antenna clip for the Air Force made to spec. Negotiations on this particular contract will provide some insight into the 8(a) process.

When approached by SBA for this item, we explained that although we do steel fabrications, we did not have in-house the dyes needed to perform on this item. Our initial bid was $1.54 per item, but that price was rejected and we were informed we had to match the previous year bid of $1.34 per item, or pass on the contract. We expressed that we could meet that price if allowed Business Development Expense of approximately $6,000 to secure the dyes needed to make the part. Our request for BDE was rejected since manufacture of this item was stated not to have been included in our Business Plan. This was untrue since our Business Plan specifically states that along with our named products, we also do "steel and aluminum fabrications".

Although the Los Angeles District SBA office made every endeavor to obtain the BDE assistance for me, they were unsuccessful and finally, in order to meet the $1.34 per item price, I was made a personal loan by a friend to secure the needed dyes to perform on this contract and it was awarded to me.

I find that all the work my staff and I have prepared for a contract from the 8(a) program is absolutely ridiculous. Government contracts awarded on competitive bid never require that type of documentation. For an 8(a) contract, it is necessary that a pricing proposal requiring multiple quotes, a detailed pricing budget with full disclosure documentation of material cost, indirect expenses, direct labor expenses to the hour to the man, G and A expenses broken down to the dollar to the percent of time and any and all support documentation from sub-contractors such as our platers, heat-treators, etc, are a mandate. This is fine if your bid is higher than those previously paid for a procured item, but when you've been made to comply with the existing price of an item the agency knows the costs. There is no means of reimbursement for the labor costs a small business incures when employing its staff to pull this documentation above and beyond the in-house documentation it has already pulled to quote a realistic price.

Another area of 8(a) that seems more a deterrent to the contractor than a help is the negotiation process. Time spent in negotiations for a Set-Aside Contract frequently run into the actual preformance time allotted for a contract, i.e., if a contract is awarded from April of one year to March of the next year, and an 8(a) contractor is still in negotiations in July, she has lost three very vital months of performance time.

People should be aware that the 8(a) program is not the gravy train it has been acclaimed by its opponents to be. The words 8(a) have become stigmatized and stereotyped to denote minority exploitation of the government, yet when the same types of government assistance is provided majority corporations, it is considered an everyday transaction that is necessary to sustain the quality of the goods and services the government requires.

It is a proven fact that one of the major contributing factors of unemployment within minority communities is that minority businesses that would employ them either do not exist, or have not reached the status of viability necessary to absorb or make a realistic impact on the unemployment within their communities. Manufacturing, with its high labor intensity, is an area of minority business that would most benefit from programs such as 8(a), if in fact they were truly designed to do the things they have been targeted to accomplish.

The new regulations that have recently come down regarding the 8(a) program, including but not limited to 96-481, which deals with graduation of the 8(a) program, seem to be intended only to appease the opponents of the program—they in no way improve upon or enhance an already troubled system.

Without question, the American enterprise system was not created in a five year period of time, and it is unrealistic to assume that minority enterprise laden with the on-going responsibility of disspelling the myths of their inability can enter that system, reach self-sustainment and become truly competitive with firms hundreds of years old in many instances, in a five year period of time. It is absurd to further assume this can be achieved when the female or minority entrepreneur must pursue his goals in an ever increasing air of hostility even unto that seat of government proported to be designed to offer him a path of least resistance—the SBA.

The allegations of abuse of the 8(a) program are most certainly not without some foundation. Yet, this abuse is no greater or no less than the day to day abuses that take place with majority firms engaged in business with the government. The public outcry would be great if all majority companies were penalized as severely as minority enterprises are being for the abuses conducted by only one or a few.

When district and regional SBA officers become so gun-shy they cannot respond to realist requests for BDE or Advance Payment that meet all SBA designed guidelines without central offices sanction, then why not allow us to pass the senseless constraints of "due process" and go directly to the individuals who can make these decisions.

Recently, I read statistics which stated the 8(a) program had provided approximately $4.5 billion in federal contracts to its participants during the 12 year period between its inception in 1968 to 1980. This can hardly be considered the lions share of government procurement in any given year, much less over a 12 year time period.

It was further stated that SBA was considering a 70 percent guarantee on bank participating loans to replace the 90 percent guarantee currently existing. We all know the impact that this would have on small business, especially minority and female-owned concerns. They are not easy to obtain with the present structure and if we believe that minority business fold at a high percentage rate now, it does not begin to compare with what lies ahead should this program be enacted.

I took the time out and addressed this matter by speaking to the manager of a large bank in the Southern California area and also a smaller bank who specializes in SBA guarantee loans. The things that I learned from these conversations were that neither would be receptive to this type of guarantee. It would limit the smaller bank's lending capacity by 200 percent. It was explained to me, they could not make nearly the number of loans that they presently are making. The additional 20 percent exposure that the bank would have to incur would cause them to look at a loan proposal in a new light and there would be fewer loans approved. The larger bank had basically those same concerns. We explained that although there is a good profit for SBA loans now that there is a secondary market that will purchase the quaranteed portions that allows the bank to recoup immediate portions of their investments to lend again, that the 70 percent guarantee program would kill off a lot of the interest from any lending institution.

Banking is not a field where I have great expertise, but every banker I have discussed the 70 percent guarantee program with strongly expressed the concern it has created to destroy small and minority businesses.

To address Public Law 95-507, and in the inception of this law was a great and a fantastic law that would have served the needs of minority business to its fullest extent.

This law to me now is a total myth, it has no substance. There is nothing done to Prime Contractors of the Federal government who fail to comply because of lack of penalization which causes any other sector of business to take it serious. There have been so many loopholes written into this law that any company trying to force compliance would never succeed.

I will close my testimony with this in mind: As the president of the National Association of Black Manufactures, Region VIII, and working with the membership, it is very difficult to understand the lack of implementation in so many areas when it regards minority business. If it is the wish of any administration to build a harmonious relationship and create jobs in the minority community, these things will have to change. It is impossible to fight all day to get the consideration needed for success and to build strong companies that will ultimately employ our youth, if there is no communication between minority businesses and the agencies designed to make this a reality.

Mr. **MITCHELL**. Thank you very much.

During the years I have served in the Congress I have heard the various administrators of the Small Business Administration indicate that their objective is to handle an 8(a) certification within 90 days, one way or another, approved or disapproved. It took in your case 18 months?

Miss **HARRIS**. Yes.

Mr. **MITCHELL**. And on your loan guarantee application, how long did that take?

Miss **HARRIS**. It took approximately 13 months. I have been sent to one agency to put together a package. I am 4 months into that. I was told they were not refunding but that they could refer me to another agency, who I went to, and in the process of dealing with them lost my documents and the information I brought to them.

Mr. **MITCHELL**. The agency lost your documents?

Miss **HARRIS**. They had let one member of the agency go, and in him leaving I guess he misplaced the documents. So all of these things had to be recreated and brought back again. The package was unacceptable to the bank. And at that time I went out and got a private accounting firm to put together my loan package.

Mr. **MITCHELL**. What percent of your annual business is private sector?

Miss **HARRIS**. About 95 percent of my business is private sector.

Mr. **MITCHELL**. Ninety-five percent.

Miss **HARRIS**. Yes.

Mr. **Mitchell**. Now——

Miss **Harris**. I applied for the 8(a) program because I thought it would give me the growth I needed to move over into the other sector of business and to also allow myself the growth pattern that I needed to become more competitive in the private sector, which meant I could buy better if I was buying in larger quantities. So, if I could find an equal amount of contracts in the Government procurement as I was doing in my private sector that I may be able to allow that, because with the industry that I am competing with, their gross sales per year is in the realm of anywhere from 20 and up—that is millions. And in my industry, prior to 8(a) or last year I did have $1 million in gross sales. This year I have identified in excess of $2.3 million. And I am just into the fourth month of my fiscal year. A portion of that is a contract with the Federal Government that I bid on competitively. And I am one of four companies that are performing on this contract. It is a yearly contract of $3.8 million, that is released on material handling items, which would include dollies, handtrucks, and platform trucks.

I have submitted some catalogs to you which have in there my product lines and the items that we manufacture and/or distribute.

Mr. **Mitchell**. You are primarily still dealing with casters?

Miss **Harris**. Yes.

Mr. **Mitchell**. Now, one last question from me. You say you were held up by the Small Business Administration, delayed in processing your certification because they thought you might be a front firm?

Miss **Harris**. Yes.

Mr. **Mitchell**. Did they explain why they thought you might be a front firm?

Miss **Harris**. They said they had done a check and in checking they had not been able to identify a minority firm within the United States that was manufacturing casters and material-handling items in the manner in which I was expressing that we were, that we had a complete product line.

Mr. **Mitchell**. Where is your firm located?

Miss **Harris**. My firm is located in the Watts Industrial Park.

Mr. **Mitchell**. And your title in the firm?

Miss **Harris**. I'm president and chief executive officer.

Mr. **Mitchell**. And how many members on the board?

Miss **Harris**. My board consists of six people.

Mr. **Mitchell**. Six people. Of that six, how many are minority?

Miss **Harris**. Three are minorities.

Mr. **Mitchell**. And three are majority?

Miss **Harris**. Yes.

Mr. **Mitchell**. What percent of the ownership lies with the minorities?

Miss **Harris**. A hundred percent, because I own the entire company.

Mr. **Mitchell**. One-hundred percent.

Miss **Harris**. Yes; I think, too, it should have been brought out in my 8(a) certification. I was told that I had to change my board of directors because I had more majority on my board than minorities, and that that was something that would disqualify me under the 8(a) program, and that was very strange to me.

Mr. MITCHELL. I don't think that is accurate. The rule of thumb is minority ownership 51 percent.

Miss HARRIS. That is what I thought. I put my vice president on the board of directors. It meant having to add another minority. I didn't argue with them. I just put another minority on the board.

Mr. MITCHELL. All right. Thank you very much.

Congressman Crockett?

Mr. CROCKETT. Do I understand that you are the only stockholder in the corporation?

Miss HARRIS. Yes, I am.

Mr. CROCKETT. And do I also understand that to date you have only received one Government contract, one 8(a) contract rather, for $26,000?

Miss HARRIS. That has been increased to $70,000. It was an amendment done on that contract.

Mr. CROCKETT. To make it $70,000?

Miss HARRIS. To make it $70,000.

Mr. CROCKETT. But that is the only Government contract you have received?

Miss HARRIS. The only one that is not a branch of the Federal Government that does not secure casters. I worked as a subcontractor for a majority corporation to do casters for both the Navy and the Army.

Mr. CROCKETT. And looking at your statement, I gather that in order to get that contract, you had to do the following:

> For an 8(a) contract it is necessary that a pricing proposal requiring multiple quotes, a detailed pricing budget with full disclosure documentation of material cost, indirect expenses, direct labor expenses to the hour to the man, G&A expenses broken down to the dollar to the percent of time, and any and all support documentation from subcontractors such as our platers, heat treaters, et cetera, are a mandate.

And all of that you had to do for an original $26,000 contract?

Miss HARRIS. That's very true.

Mr. CROCKETT. I suppose, Mr. Chairman, there is quite a bit of truth to the criticism we hear in all of these hearings about the amount of paperwork that the Federal Government has been requiring, particularly through the Small Business Administration. Certainly our committee should be giving some attention to that.

Mr. MITCHELL. If the gentleman would yield just a minute. It is clear we have to streamline this process. It is clear we have to take the bull by the horns. I hate to do it legislatively, because I think agencies have that responsibility. But that is ridiculous to make that kind of requirement for such a small contract. I assure you we will be initiating some new efforts along those lines.

Mr. CROCKETT. Now, it seems pretty clear, based on what I call the fiasco that occurred in Washington a few days ago, when we voted on the budget, that this anticipated reduction in guarantee from 90 percent down to 70 percent is going through. And I gather from your statement you feel that for all practical purposes that is going to destroy the guarantee program with respect to minority businesses.

Miss HARRIS. Without a doubt. I expressed in my testimony that I had interviewed not just one—not just small banks, but majority banks, too. And the two I dealt with on an ongoing basis felt if this legislation was passed that it would really be passed to make sure that minority firms would not be able to get the type of funding needed to stay in business, that it would be totally unrealistic to think that even small banks are utilizing the 90-percent guarantee as a leverage basis to make the kind of loans that they would like to make on an ongoing basis, but do not have the capital, so the 90-percent guarantee allows them that flexibility.

They felt their lending capacity would be cut tremendously if in fact they had to try to work with the 70-percent program, and would disqualify so many of the minority firms that applied for funding under that program, because they would have a 30-percent risk factor at that time, which means that the banks would have to scrutinize those loans tremendously. And they said, although over the past few years there has been a secondary market put out that will buy SBA paper, it will still limit to a great degree the amount of loans that they could even entertain for minority firms.

Mr. CROCKETT. Have you and any of the other minority business people in this area sought and obtained a meeting with your Congressman to discuss your concerns about what is likely to happen with the Small Business Administration?

Miss HARRIS. We have; not only have we done that, I'm the regional president for the National Association of Black Manufacturers here in southern California. We are now going around and expressing to minority businesses what kind of impact that legislation will have. We are requesting that they all write and put together letters to their Congressmen, to the Senators, and to the House Small Business Committee, both on the Congress side and the Senate side, and to the kind of impact this would have in small and minority businesses across the country.

Mr. CROCKETT. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you, sir.

Congress Siljander?

Mr. SILJANDER. Regarding the 70-percent risk factor, how can you more empirically substantiate the fact that the 70 percent would destroy minority efforts?

Miss HARRIS. Because in so many instances the small business does not have 30 percent. Realistically we all know that no lending institution is going to put money out with any risk factor involved. With the 80-percent program presently in effect, there is only a 10-percent risk factor. And that 10 percent is covered based on what they had within the business. The small business usually has within that business—I don't know one that has been funded yet that didn't have the 10 percent to cover whatever the amount of the loan was that was put out. It is through the home you own and the equity you have in your home, the machinery and equipment you have in your business—those things are taken in as collateral, along with your guarantee, and therefore they have that. When you take 30-percent compared to 10 percent, it is not guaranteed that a minority firm would have a 30-percent risk factor within their firm, based on what it would be that they would want to do.

My first loan, I had to reduce by over $100,000 because the bank could not identify the assets within my firm that would allow their exposure based on what I was asking for. So therefore, they reduced my loan package. We would entertain this package with complete understanding that this loan was not for $250,000—if it was more like $140,000—because at that point they knew they had no risk factor. And it is understandable. They are in business to make money like everybody else. But the only thing that allows minority businesses to get the aid that they get from the banks with the guarantee program is based on that small amount of risk which is covered in the businesses that they are funding.

Mr. **Siljander**. If I hear you correctly, what you are saying is that you might be able to come up with 10-percent collateral, but not 30 percent.

Miss **Harris**. Realistically based on what the needs of the company are. I am speaking from my needs as a manufacturer. I think until we do more to increase minority manufacturing across the country, we will still have a problem. And that usually comes from undercapitalization, and not being able to get the kinds of moneys needed to go into manufacturing because the capital investment is so outlandish. By the time you try to buy machinery, dies, and equipment to manufacture anything, you have $250,000 to $300,000 invested.

In my situation, I am just fortunate that I had a lot of these things put in place prior to having to go to the bank to ask for money.

Mr. **Siljander**. It is kind of interesting. I don't see a paradox coming out of some of the statements being made. We are saying it costs so much to initiate proper capital because of inflation, and the condition of the economy, and yet if we cannot do that, we cannot secure a proper loan. There seems to be a vicious circle here in the sense that what we are trying to do in Government is to reduce inflation, reduce the high interest rates, by limiting the budget, and by stimulating the money markets. On the other hand, we are hurting you by these actions. There are two elements to focus in on. There is an inflation element that seems to be very disruptive and hindering you from acquiring the capital necessary to obtain a proper loan.

Also, we are trying to deal with the inflation by reducing Government involvement. So what you are saying is in that circle of confusion, minorities are getting hit harder in that circle of events than anyone else.

Miss **Harris**. I am saying we can get both ways. First of all, we have not been around 30, 40, 50 years to secure the kinds of things that would secure it, when the price was reasonable. Second, I am saying based on the interest rates that we have to pay to try to acquire those things now, they are unrealistic. Third, the bank will not even entertain allowing us ridiculous interest rates to acquire these things if in fact they cannot be assured that they do not have a risk factor out there that they will lose.

Mr. **Siljander**. You say 90 percent of yours is from the free market?

Miss **Harris**. Yes.

Mr. **Siljander**. I am impressed through all this you have been able to survive thus far.

Miss **Harris**. I think it was due to a strong board of directors. And I saved a lot of money prior to getting into business. Because I was told that it would be like this for a minority trying to do manufacturing. So I think it is between using the expertise of my board, who has been in business for a longer period of time. And when you have someone who has had 35 years of success, they can show you a lot of things that would cause you not to have the added aggravation that usually goes with a small business. Without that expertise, I really—I would not be in business today.

Mr. SILJANDER. I am curious. Are you saying that part of it was due to the expertise you had around you.

Miss HARRIS. Well, two things. One is that my expertise was the gentleman who owned his business in the majority structure, so you can buy right. I have called the same people and asked for quotes on steel, and was quoted one price that was outlandish. He called those same people and asked for the same quotes on steel that save me a percentage of money that allowed me to manufacture that item.

Mr. SILJANDER. So you are saying that your success is because you had some majority involved in your board of directors?

Miss HARRIS. Without a doubt.

Mr. SILJANDER. Are you saying the expertise tends to be in the majority, not the minority?

Miss HARRIS. Without a doubt. They have had a lot more years to capitalize on it. If you look at the number of years minorities have been into MESBIC, have been into manufacturing, into trying to compete in the free enterprise system, based on the number of years that the individual that created the free enterprise system has been there, there is no comparison. You cannot even begin to compare.

Mr. SILJANDER. That is interesting. What you are saying is get the minority to own the stock and hire majority for expertise?

Miss HARRIS. I am saying that it will have to be a combination of the two. I am saying if we are really looking at the free enterprise system and looking at a Government that truly believes in justice for all, that some justice should be put forth. That is what I am saying. I am saying that it should not be that kind of situation.

Mr. MITCHELL. Will the gentleman yield just a minute? I think we need a little clarification here. I think that your remarks are applicable to only certain types of business.

Miss HARRIS. Only to my own.

Mr. MITCHELL. Where it is clear in the area of manufacturing there has been over the years historically built up a pattern of expertise which would not necessarily be involved in a food service business that our first witness referred to. I can understand this in the area of manufacturing, certainly.

Miss HARRIS. I think that is why I opened with saying I could only address my remarks based on my industry and my business, because it definitely bears within the businesses that we are working within.

Mr. MITCHELL. You have certainly given us some very provocative testimony. Each time we hear from a witness, the problems get larger and larger and more complex. But that is our job, to wrestle with them. I thank you for presenting them to us.

We are going to have to find ways to speed up the process within the Government agencies. We are going to have to find some method of providing that bridge, which you didn't need, but most companies need to move from public to private sector. And some way to build up that expertise within minority businesses much more quickly than it has been done.

Thank you for very, very excellent testimony.

Miss **Harris**. Thank you.

One other thing I would like to add to that.

My contract that I got competitively, it took no more than working up in-house, the quote that I needed, putting it down on a piece of paper. They sent it back to me and said, you have been awarded the contract. Is it that difficult to do that with 8(a) contracts?

Mr. **Mitchell**. It certainly should not be. If one agency can move, or one category can move a bid that effectively and efficiently, there is no reason why we should not demand the same from all agencies of government in all sectors.

Mr. **Mitchell**. Our next witness is Mrs. Barbara Judge.

Would you come up to the table, please?

## TESTIMONY OF BARBARA JUDGE, VICE PRESIDENT, AMERICAN PACIFIC STATE BANK

Mrs. **Judge**. Good morning, Mr. Mitchell. Thank you very much for allowing me to be here today.

Mr. **Mitchell**. We thank you for taking the time to participate in this hearing.

Mrs. **Judge**. I am Barbara Judge, vice president of American Pacific State Bank, located in North Hollywood, California.

I will read my testimony. It is very brief. However, what has just been expounded upon—I would like to speak about that, also.

Mr. **Mitchell**. Fine.

Mrs. **Judge**. If that is all right with you.

Mr. **Mitchell**. Sure.

Mrs. **Judge**. OK.

Small business is extremely sensitive to the effects of inflation, always finding itself the victim of the wage-and-price spiral and the shortage of investment funds. The result, inability to upgrade and modernize plant and equipment, which might increase its productivity enabling them to compete successfully.

Small business has contributed jobs, innovation, and healthy competition to the American economy. Small business accounts for over 50 percent of the private sector jobs, the lifeblood of a healthy free enterprise economy. Small business has also accounted for half of all innovations and new technologies in this century.

Most commercial banks are predominantly short- to medium-term lenders. That is one reason why our bank elected to utilize the SBA program, which provides us the ability to extend 7 to 10 years financing for working capital, equipment, and expansion. Also, it provides us the ability to service business accounts over our bank's legal lending limit; that is, the 90-percent guarantee, meaning we only have to count 10 percent against our loan portfolio. Therefore, the ability to service a more sophisticated borrower in the growing stage, allowing our bank to grow along with them.

It seems to me, that the current credit crunch must be curtailed; that is, prime rate fluctuation, in order for small buinesses to survive, even with the SBA program. By jacking up the Federal funds rate, it makes it more expensive for banks to borrow their money. So, we have structured our SBA loans at 2¾ percent over the low New York prime rate adjusted quarterly, in order to survive in the competitive market today and keep up with the cost of money index.

The effect is that you have a dramatically higher interest rate and, unfortunately, another Government tax on smaller firms. Until the prime rate settles down, we will continue to assist our customers by requesting moratoriums on principal payments, allowing them to pay interest. Therefore, hopefully not affecting their cash flow and thus keeping the doors open for them to continue to operate.

American Pacific State Bank was formed in 1971 and decided to specialize in this program in 1979. At that time we started this department with one girl and an existing loan portfolio of $5 million. Since that time we have increased our staff to 11 and our loan portfolio to $20 million, representing 100 loans, not including $5 million we have sold in the secondary market. The focal point of our bank is the SBA department and we are dedicated to helping small businessmen for the betterment of the community.

Now, I know it is under consideration that they are considering lowering the SBA guarantee to 70 percent. This would really create, I think, a horrendous hardship, not only to the small banks but the larger banks as well, and affecting the small businessman. He would not be able to get a loan to keep in business—because, No. 1, my bank is a small bank. We utilize it because we are able to replenish our money supply through the secondary market by selling it to different firms and it comes back to us and we reinvest it again in small business loans. The larger banks, such as Bank of America, and UCB, and Security, I believe, they do not sell their loans. However, a 30-percent exposure on some of these loans would be a horrendous strain for any bank, and I think would curtail the lending of the banks to the small business. And that is what it is all about.

The backbone of our country is the small businessman, and without them the large businessmen would not be able to survive. So I think that there should be, maybe, some sort of a formula worked out whereas—well, I understand in attending a breakfast recently that Mr. Cardenas spoke at, that the SBA program was being misused—in other words, that the banks were just going and making the loans to the customers and just looking at what do we have to lose, just 10 percent, and if we cover ourselves in the collateral, there is nothing to lose. Well, that is not the position that my bank takes. And I told Mr. Cardenas so at the breakfast. And I think it should be on the basis of fact.

Now, the banks that have a record of calling on the SBA guarantee frequently and not spending time working out their loans like they should, and helping their customers like they should, right now you are looking at a prime rate, if you can believe this, that is being charged to the small businessman of 22¾ percent. Figure what that is on a half million dollars. That is horrendous—just absolutely horrendous. We don't like it any more than that poor small businessman sitting out there paying it. So what we have done is to not close our doors. We work with them. We will request permission from the SBA—and by the way, the SBA is a very cooperative Government agency. I have very good rapport with them. They are excellent people. They do their best to help everyone as far as I am concerned.

We grant them moratoriums so that they can—so we don't have to consider their loan in default. In one case history I was going to submit to you—however, I wasn't feeling too well so I didn't complete, really, my testimony that I wanted to tell you about—and that is one that was misled in the beginning. It was a franchiser that produced projections to this individual on a 100-seat restaurant, whereas in their particular franchise there were only 3 in existence. So the projections that we went by and granted the loan, because of the projections, the gentleman invested his money based on projections. When push came to shove, and all the construction was delayed and so forth and so on, it was way below—$200,000 below what it should have been. And then the poor man—it was an ice cream parlor—didn't open his doors until December. Now, who is buying ice cream in December?

I have been working with this gentleman for 2 years. For him, we requested a moratorium on principal and interest from the SBA to see if we could come to grips and really help him, because he had a successful dipstick store on the campus of UCLA-Northridge. The SBA said yes, they would grant that, and they said it was a remarkable request upon the bank's part. Therefore, we accrued interest to the tune of $36,000 and then it allowed him, without paying that—allowed him to get to the break-even point in the winter months without debt service. Now he is coming to the summer months, and he will be able to pay in an erratically—not according to the payment schedule, but he will be able to pay over and above whatever his expenses are on the SBA loan, keeping him in business and keeping the doors open. We also placed that $36,000 interest accrued on a non-interest-bearing note which he pays; we amortized it over a 5-year period. If that is not trying to help somebody, I don't know what is. And that is what we do for each and every one of our customers. If the 90-percent guarantee is taken away from the banks, I am afraid that you are going to find a lot of small businessmen out there not being able to get financing.

I think it should be determined again. I will sum it up. I know everybody is tired of hearing everyone talk.

Mr. **Mitchell**. Not at all. We are just getting started.

Mrs. **Judge**. If they were taken on a case-by-case basis according to bank, which bank turned in their loans, say, when they were 90 days delinquent or whatever, just to get rid of them and get it off the books, write off the 10 percent for their taxes, take it off their loan loss reserves, and so forth, or which bank is deserving of that 90-percent guarantee, that took those loans and worked them until they could not work them anymore—that is what it should be considered, upon merit, if you are going to change it from the 90 to the 70.

Mr. **Mitchell**. Thank you very much.

Let me just state very often people do good things, and they don't get any recognition, and no one knows they are doing good things. I don't know how much it will help, but it was brought to my attention 4 or 5 years ago the tremendous work your bank is doing with small businesses. I don't think I ever wrote you. But there is an awareness in Washington, despite the picture to the contrary, of when an institution really attempts to do a good job on behalf of small businesses. I think certainly your bank has done that, and word has reached Washington.

I also want to congratulate you on the willingness to defer, have a moratorium on your principal—the other case where it is both principal and interest is truly exceptional. But I think that is very helpful.

My question is, how long would you do that? Leave out the interest—just the moratorium on the principal—in how many cases could you handle on that basis, for how long, without your bank beginning to get itself in trouble?

Mrs. **Judge**. Well, I don't think—I really could not tell you that intelligently. But we normally consider 6 months. And the SBA goes along with 6 months. Sometimes we do 3 and 3—then if they have improved, they can handle it, then we go along. If they cannot, we go an additional 3. We have not gone any more than the 6-month period at this time—even on the one I was speaking of, because the gentleman had been feeding the business with every cent he had. When it came down to the nitty-gritty and he didn't have anything left, that is when we did what we did.

Mr. **Mitchell**. This is a sad confession for a Member of Congress to make, but I assume that this is the argument on the guarantee portion—that loans up to $100,000 would be entitled to a 90-percent guarantee, loans above $100,000 to a one-quarter of a million would have a 70-percent guarantee, and then there would be a fluctuation if you exceeded a one-quarter of a million dollars. It is a little embarrassing for me to say I have to assume this. Because frankly I don't know what was in that reconciliation budget that was passed by the Congress. It was rammed through. I am not at all sure about changes there.

Mr. Siljander?

Mr. **Siljander**. Thank you, Mr. Chairman.

You mention 70 percent could be devastating to small business. Doesn't the real burden fall on the shoulders of the SBA rather than the banks or the Congress or someone else?

Mrs. **Judge**. Not necessarily. It is the bank's money. OK. The bank—in my case the secondary market—only buys 90-percent guaranteed loans. If I could not sell my loans on the secondary market, then how could I replenish my money supply to reloan the money out again?

Mr. **Mitchell**. Let me reclaim the time, because I will give you your own time. Let me just say, here, again—and I am using a kindly term—the uneven performance by SBA, I have grave feelings about them making that determination. I mentioned this to the committee—I have a great deal of concern because they have not been evenhanded in their performance—whether or not SBA should indeed make that determination, quite apart from the objective you are trying to state.

Finally, let me indicate you mentioned the best way to do it would be on a case-by-case basis, looking at each bank. I would agree with you, except that is not going to happen. In our wisdom, we have cut SBA personnel funds, which means that there is going to be even further limitations imposed on the SBA staff. Frankly, I just don't think they are going to have the capability of doing that kind of thing on a case-by-case basis. I would frankly take another look at the levels of guarantee.

Congressman Crockett?

Mr. **Crockett**. Thank you, Mr. Chairman.

Miss Judge, I noticed in your statement, your company on SBA loans charges 2¾ percent above the New York prime rate.

Mrs. **Judge**. The low prime rate, yes, sir.

Mr. **Crockett**. It seems to me the New York prime rate is grossly high. Why is it necessary for your firm to add an additional 2¾ percent?

Mrs. **Judge**. In order for us to keep up with the cost-of-money index, that is what we have to do. Right now the prime is at 19. The cost of money index was up to 19—or over 19 percent what it cost the bank to buy money in order to loan it out. You are not looking at a very large spread when you are talking about 2¾, when you are entertaining the type of staff and the facilities that we have and what we do for the customers.

We do a loan in less than 6 weeks. Miss Margo Harris can tell you that, because she is one of my new customers.

Mr. **Crockett**. I gather that you have been unusually successful, because within a period of 2 years you have increased your loan portfolio four times, $5 million up to $20 million.

Mrs. **Judge**. That is one-third of our loan portfolio.

Mr. **Crockett**. But when you consider that under the direct loan program of SBA the maximum interest rate that we have been charging, I think, Mr. Chairman, was 10½ percent, and now under the Republican steamroller it is proposed to carry that up to 15 percent; is that right?

Mr. **Mitchell**. 15.3.

Mr. **Crockett**. It would seem even my Republican colleagues have a little more conscience than the American Pacific State Bank.

Mrs. **Judge**. Well, if they would adjust the prime rate accordingly, so that the banks wouldn't have to pay so much for their money, then we would not have to charge that kind of a rate in order to come out, or else we would not be able to be in the program. I think that that is the problem. I mean the fluctuation of the prime rate is horrendous. No one can tell you why. No one can tell you how much, if it is going to go up or down. Every economist has a different opinion. No one can tell you anything. So here we are. I was sitting listening to the radio and I heard it went up to 21 percent. I could not believe it. It was supposed to be coming down.

I understand it is to curtail credit. But without credit, how can they go on in business today?

Another thing, $550,000, what that could buy them 2 years ago, as far as that is the maximum allowable under the SBA program, it doesn't cut it today, to be truthful. You cannot even compare it. It is like comparing apples and oranges. So I think that it has to do—it has to start from up above, and have the prime rate controlled to a level like it used to be, where a person has a fighting chance.

Mr. CROCKETT. If the proposed 70-percent guarantee holds, that will personally affect your operation; is that right?

Mrs. JUDGE. Yes, sir, it would.

Mr. CROCKETT. Would it really wipe out your small business loans?

Mrs. JUDGE. No; I don't think it would wipe it out, because—if it would do that, you would look at different types of loans. Right now our average loan is approximately $275,000, approximately, the average loan.

Mr. CROCKETT. Thank you. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you. Just before calling on Congressman Siljander, let me indicate that I also serve on the House Banking Committee—Banking, Finance and Urban Affairs Committee. We have been wrestling with the Federal Reserve System for years, its unpredictability with reference to interest rates. The unfortunate thing is neither the Congress nor the executive branch of Government controls the Federal Reserve. It is a completely autonomous operation, just about. We have today a meeting of the Federal Open Market Committee of the Federal Reserve, and we expect something will come down with reference to the interest rates. What changes will be made at the discount window and so forth, we frankly have no idea. I hope it will go down. But we have no guarantee that it might not be increased. I just wanted to be on record that we are dealing with an entity over which the Congress really has no control. Let me just put it that way.

Congressman Siljander?

Mr. SILJANDER. Just briefly. I am still a little bit perplexed. You said the average loan was $275,000.

Mrs. JUDGE. Off the top of my head.

Mr. SILJANDER. Somewhere in that neighborhood. It still would fall under the prerogative of the SBA to still guarantee 70, 80 or 90 percent of that loan. So we cannot assume all loans over $100,000 automatically will be 70 percent. I am a little perplexed as to why the urgent sense of devastation for small business if the SBA would have the prerogative to establish somewhere between 70 and 90 percent the loans over $100,000.

Mrs. JUDGE. That is not what I understood it to be. I understood it to be an order from above *x* number of dollars 90 percent, and then *x* number of dollars 70 percent, and *x* number of dollars 50 percent. I did not know it was the prerogative of the SBA itself. Are you speaking of the regional level?

Mr. SILJANDER. As I understand it, SBA does have the prerogative, up to $500,000, to determine if it is going to be 70, 75, 80, 85, or 90 percent.

Mrs. JUDGE. Well, if they have the prerogative, there probably is a serious problem.

Mr. MITCHELL. Would the gentleman yield.

I would add one caveat to your statement. I recall very well during the discussions in the House Small Business Committee about this prerogative being given to SBA. There was a great deal of fear that the SBA officials would always go for the lower figure. Many of the members assumed that above that $100,000 figure, that the administrators would almost inevitably go for the lower figure, thus increase their risk factor. So that is the caveat I would want to enter.

I thank the gentleman for yielding.

Mr. SILJANDER. I have no further questions.

Mr. MITCHELL. Thank you for your testimony. Despite all the adversities try to keep up the good work. We need this kind of assistance from a bank that is apparently committed to helping small businesses. Thank you very much.

Mrs. JUDGE. It is my pleasure.

Mr. MITCHELL. Is Mr. Gevirtz here?

At this time we will take two more witnesses, and then a 10-minute break. Then we have two more witnesses after that, and we will adjourn for lunch.

The third panel is Mr. Vernon Williams of the West Side Charter, and Mr. Carl Washington.

Mr. Washington, I am always reluctant in Washington or out in the field, when we have witnesses who take time out from their businesses to come to testify before us. We need your information, but I know that it is hard for a businessman to be away from his business for half a day or 1 day.

## TESTIMONY OF CARL D. WASHINGTON, PRESIDENT, TELEPORT OIL CO., INC., SAN FRANCISCO, CALIF.

Mr. WASHINGTON. Or 1 hour.

Mr. MITCHELL. So it is with a great deal of gratitude and appreciation we welcome you. We are eager to hear your testimony.

Mr. WASHINGTON. Thank you.

Mr. Chairman and members of the committee, I would like to thank you for this opportunity to address you today concerning the state of the 8(a) program.

My name is Carl Washington, president of Teleport Oil Co., located in San Francisco, Calif. We are the only minority petroleum supplier west of Chicago that I am aware of. We currently employ 15 persons of all ethnic persuasions with sales at calendar year end, this past December, of $7 million approximately and a profit of approximately $20,000.

We have been on the 8(a) program for 2 years. Currently 75 percent of our sales come from 8(a) contracts.

Briefly, a statement concerning just the California petroleum industry. Among the States, California is unique in its dependence upon petroleum. Its residents consume almost 1 billion gallons of gasoline per month, which is equal to approximately 10 percent of the national usage per month.

If you multiply 1 billion gallons times the average cost of gasoline of $1.23 a gallon, that equals $14.760 billion per month in gasoline sales for the six major oil companies in California only.

Given those factors, you can understand the difficulty that a minority entity might face in trying to enter such an arena. Some of the problems that we as a minority firm have faced, of course, which is tantamount to all minority entities, is the problem of financing.

Minority firms are at a distinct disadvantage in competing in the petroleum industry because of a lack of accessibility to adequate financing and credit terms. The first question a banker asks when a firm comes in seeking financing is, can I see your financial statement? Immediately a minority firm is placed at a disadvantage because of its inability to secure, in the majority of cases, adequate financing to perform in the petroleum industry. We all know you cannot deliver a market without finances and you cannot get adequate financing without a market.

The second problem that a minority petroleum firm faces is acquiring technical skills. We as a minority firm cannot compete in trying to acquire the technical skills in the open market which all of the major firms readily have available, plus the so-called small petroleum firms have available to them, which in most cases are no more than technicians themselves who have graduated from the major oil companies and went into business themselves.

Third, experience. Minority petroleum firms find themselves in a Catch-22 position. Most majority community customers want you to have experience, but most majority community firms are not willing to be the one to provide you with the experience you need.

Another problem that we as a minority petroleum firm face is the fact that we are a first-generation company in this industry. And of course, first-generation firms do not have the accessibility to brothers-in-law, fathers-in-law, brothers, sisters, uncles, friends, and what have you, which is so vitally important to have if you want to get into a particular industry and prosper. It is a much easier row to hoe if you have some of that past history behind you through relatives, friends, and associates.

The good old boy network is a way of life in the majority business community. I think we are all familiar with that good old boy network. And of course it is very difficult for minorities to become a part of that good old boy network, because we don't live in the same neighborhoods, we don't attend the same churches, same social functions. So it is very difficult for us to become a part of that good old boy network of which we all know make life a lot easier when it comes to trying to do business in the majority community.

Fifth, the element of racism. The majority community is not ready to accept or absorb minority enterprises into the mainstream. Even after a minority firm has demonstrated its ability to perform, the majority community's universal cry is "Why should I stop doing business with the firm I have been doing business with for many years to now just start doing business with you because you currently have a better price"?

Well, when someone tells you that, you just stand back on your heels and say—damn, all along they have been telling me all you have to do is become competitive, and then when you become competitive, well, just because you have a lower price doesn't mean I should drop good old Charley—after all Charley has been supplying us for 22 years, and now you come in with a better price and we are going to drop Charley and do business with you? That happens every day of my business life in the petroleum industry.

So you constantly have these hurdles that minority entities have to continually jump. First it is competitiveness. When you jump that hurdle, there is always another excuse—your product is inferior, we have a contract, et cetera. You make one and they will come up with a new hurdle.

Briefly, I would like to ask first of all of the panel, if I may, three questions. First, concerning graduation from the 8(a) program, where are the 8(a) firms today that have graduated from the 8(a) program? Second, how is the 8(a) program a burden to the Federal Government in the way of a so-called giveaway program? And third, why is it so necessary to hold hearings on the status of the 8(a) program which is a positive step in the right direction to alleviating some of the injustices that exist in our society when the Government can justify doling out billions of dollars to Chrysler, the farming industry, and Lockheed, just to name a few. That is a question I would like the panel or anyone of you gentlemen to answer for me, please.

Mr. MITCHELL. We will respond to your questions after you complete your testimony.

Mr. WASHINGTON. Thank you.

I have looked at this entire 8(a) program and have tried to look at it from both sides of the fence, and have come away with a couple of solutions that I feel are worthy of consideration.

First of all, economic incentives. The majority business community must be given worthwhile economic incentives, such as adopting graduating 8(a) firms, and giving those firms that are willing to adopt graduating 8(a) firms tax incentives—if it cost them 10 percent more to do business with this 8(a) firm than it does with a majority firm, then allow them a writeoff to justify that, plus a bonus for doing this. Then you set a price on racism and the good old boy network. That is the only way you are going to combat those elements which I feel must be combated. Otherwise you are spitting in the wind.

Non-8(a) Government contracts for graduating 8(a) firms. The State of California instituted a program called a bid preference for small firms whereby they allowed a bidding small business a 5-percent preference when it came to bidding on State contracts. I feel something similar to this could be instituted for graduating 8(a) firms, in helping them get into a market after the 8(a) program.

Profitable 8(a) contracts. I think it would be a tremendous help to 8(a) firms if 8(a) firms could make a decent profit on return on investment of 8(a) contracts. I continually hear this story about 8(a) contracts being a giveaway by the Government—and the individuals and firms that I know in the 8(a) program, I don't see where the Government is giving away a damned thing. Whether it is construction, service, or what have you, it seems that the SBA is not really interested in whether or not the contract is going to be profitable to you, that you will be able to pay for equipment, amortize your loan payments, and what have you. They are simply there doling out contracts reluctantly, and they want to make it as miserable for you as possible.

The contract that we have with the Government is a contract whereby all of our prices are geared to what a major oil company is selling to the Government for. So I don't see how that is a giveaway program. That cost is a factor that they are getting from the lowest bidder, from major companies in our industry anyway. But yet I still hear people saying, well, that is a giveaway program. I don't know of any 8(a) firms that I have spoken with that feel that they are making such great profits as a benefit from being on the 8(a) program. The only benefit that I see from the 8(a) program is that it does allow you to know that next week, next month, that you can count on a certain amount of business flowing through your office, at whatever profit margin it is. At least you know you can plan accordingly. If you were dealing strictly in the majority community sector, you wouldn't know from hour to hour what you could plan or depend on.

Fourth, stronger Federal procurement law enforcement, such as Public Law 95-507. I have spoken with companies who received Government contracts and fall under Public Law 95-507, and to them it is a joke. It is nothing but a joke. And they all realize and recognize that if they run around a minority firm long enough, with enough "BS" about what you have to do to get qualified, and then once you get qualified—oh, next year this contract will be up, and then we will be able to do some business with you. By then you are long gone out of business, 50 percent of the minority firms.

But aside from that, most of them know that if they don't comply with Public Law 95-507 or whatever, the Department of Transportation regulations or whatever, it is going to be nothing more than a slap on the wrist anyway, so why worry about complying.

In conclusion, in my opinion the majority business community have already demonstrated that they are not going to be legislated into doing business with minority firms. Consequently, why not make it profitable through creative tax incentives or ways that will motivate the majority community to join hands with the minority community for the development of minority enterprise.

The 8(a) program is one positive approach to curing the economic cancer which has existed and been allowed to fester in the minority community for too long. And until this economic malignancy is eradicated, it will continue to fester and will continue to be a nightmare and an ultimate catastrophe to the majority community.

Thank you.

[Mr. Washington's prepared statement with attachments follow:]

### PREPARED STATEMENT OF CARL D. WASHINGTON, PRESIDENT, TELEPORT OIL CO., SAN FRANCISCO, CALIF.

Mr. Chairman and members of the committee, I would like to thank you for this opportunity to address you today concerning the state of the 8a program.

My name is Carl D. Washington, president of Teleport Oil Company, located in San Francisco, California. We are the only minority petroleum supplier west of Chicago. We currently employ fifteen persons of all ethnic persuasions with sales at calendar year end of $7,000,000, and a profit of $20,000.

We have been on the 8a program for 2 years, 75 percent of our sales come from 8a contracts.

*Problems minority firms face*

1. *Financial.*—Minority firms are at a distinct disadvantage in competing in business because of a lack of accessibility to adequate financing. The first question a banker asks when a firm comes in seeking financing is can I see your financial statement. Immediately a minority firm is placed at a disadvantage because of its inability to secure, in the majority of cases adequate financing. We all know you can't deliver a market without finances and you can't get adequate financing without a market.

2. *Technical skills.*—Minority firms can't afford to attract experienced competent personnel because of their inability to match majority firm salaries, benefits, and security.

3. *Experience.*—Minority firms find themselves in a catch 22 position, most majority community customers want minority firms to have proven experience, however,

none of them are willing to be the one to give you that experience. Also even when a minority firm can show past experience then its another excuse that they have been with their current supplier for many years and there is no reason to change.

*4. First generation business.*—Minority firms in most instances are first generation companies and consequently do not have the accessibility to an existing market. And we in the business community know and realize, its not always what you know but who you know or who your father, mother or brother knows.

The "good old boy" network is a way of life in the majority business community. And minorities are for obvious reasons not a part of that network.

*5. Racism.*—The majority community is not ready to accept or absorb minority enterprises into the mainstream. Even after a minority firm demonstrates its ability to perform, the majority communities universal cry is "why should I stop doing business with my current supplier who I've known and done business with for many years?" (See attachment marked exhibit A)

*Suggested solutions*

*1. Economic incentives.*—The majority business community must be given worthwhile economic incentives to adopt minority firms graduating from the 8a program. Otherwise, minority firms no matter how long they have been on the 8a program are doomed to failure without a market to enter.

*2. Non-8(a) Government contracts.*—The establishment of a 10 percent bid preference for graduating 8a firms on bidding for Government contracts.

The State of California has established a similar bid preference for State contracts.

*3. Profitable 8(a) contracts.*—Make 8a contracts profitable so that a firm can finance its growth and development. If an 8a firm is struggling to make a profit on 8a, how can the firm expect to graduate and compete in the majority community. It takes profits not loans to grow in the business community and become competitive.

*4. Stronger Federal procurement law enforcement.*—There is a definite need for stronger enforcement of procurement regulations which again because of non-enforcement eliminates another potential market for minority firms.

The majority business community has already demonstrated that they are not going to be legislated into doing business with minority firms. Consequently, why not make it profitable through tax incentives for majority community firms to patronize and work with minority firms.

Page 6—S.F. EXAMINER ☆☆ Wed., Oct. 25, 1978

# Muni fuel row threatens funding

By Russ Cone
City Affairs Writer

**H. WELTON FLYNN**
**Mandate accusation**

**JOSEPH GAVIN**
**Condition rejected**

City Public Utilities Commissioner H. Welton Flynn has accused City Purchaser Joseph Gavin of violating his mandate for affirmative action in awarding contracts to minority owned firms.

"In my official capacity," Flynn declared at a PUC meeting yesterday, "I intend to use every means at my disposal to see that (federal) revenue-sharing funds (to the Municipal Railway) are stopped until this is resolved."

Muni receives $7 to $8 million a year from revenue sharing.

Flynn denounced Gavin because Gavin had refused to award a $2.5 million contract to supply diesel fuel for Muni's 503 motor coaches to Teleport Oil Co., operated by Carl Washington, brother of professional football player Gene Washington.

Washington said Gavin "was dead set against" his firm and had "been trying to find loopholes not to award the contract."

Chief Administrative Officer Roger Boas said today that he reviewed the situation a week ago and feels "Mr. Gavin acted with propriety."

Boas, who is Gavin's boss, said, "The feeling that Mr. Gavin is anti-black is just not in the picture at all. I've had no evidence of any sort that there is any bias."

McMorris Dow, utilities general counsel, advised Gavin he must reject the Teleport bid earlier yesterday because the bid was conditioned on Teleport's right to change prices without notice. The city contract requires 14 days notice.

Gavin said a similar condition was attached to the second lowest bid, Chevron U.S.A., which also was rejected.

Teleport had bid 36.5 cents a gallon to supply an estimated 5.7 million gallons to Muni in the next 12 months. Chevron had bid 39.4 cents, the price it currently charges The City.

AC Transit District pays 39.1 cents and Golden Gate Transit reported it currently pays 35 cents.

Washington claimed Muni "pays an exhorbitant amount, higher than any other transit system."

Gavin said Washington first inquired about the oil contract several months ago and a subsequent check of the firm indicated it was set up last February in a third-floor office at 660 Sacramento St. with $2,500.

Assemblyman Willie Brown and Airports Commissioner William Coblentz helped set up the firm and were early members of its board of directors. Coblentz said he has no further relationship with the firm. Washington said Brown has left the board, but continues as his attorney.

The names of both officials were employed in recent correspondence to Gavin. Flynn and PUC member Clare Pilcher urging a fair shake for Teleport.

Coblentz wrote Pilcher, alerting her to Teleport's bid, and Washington sent copies of his correspondence to the purchaser to Brown and Flynn.

Washington listed directors of the firm as Eddie Stanton, Hugh Hart and Dave Gillespie. He said he hopes his younger brother, Gene, will join the firm when he retires from pro football.

Washington listed other clients as Western Pacific Railroad, BART, Golden Gate Transit and the Berkeley and Oakland school districts.

He also reported receipt of a $1 million contract to serve the U.S. Department of Defense in the area.

Attorney Gene Farber told reporters outside yesterday's PUC hearing room that Teleport would be glad to provide the 14 days notice of price changes, as stipulated in the bid demand.

But Gavin said it would be out of the question for him to change his decision after bids had been opened and dispassionately examined for compliance.

Gavin said The City will continue to use Chevron while he explores other options.

Gavin said he will sound out other transit fuel purchasers on the feasibility of pooling their purchases to obtain the lowest price.

# QUARTERLY OIL REPORT

## First Quarter, 1981

California Energy Commission
1111 Howe Avenue
Sacramento, California 95825

June 1981

# Status of Petroleum Industry Information Reporting Act

The Petroleum Industry Information Reporting Act of 1980 (PIIRA) was signed by Governor Brown on September 25, 1980, and became effective October 1, 1980. Subsequently, the CEC held a series of workshops and hearings to gather information and to solicit industry comments on the draft regulations proposed by the CEC staff. The regulations are scheduled to be considered for adoption by the Commission at its July 1 business meeting.

Passage of this act and its implementing regulations acknowledges the critical role that petroleum plays in the state's economy. Among the states, California is unique in its dependence upon petroleum. Its residents consume almost one billion gallons of gasoline per month, which is 10 percent of the total United States gasoline consumption. Nearly half of the state's electricity is generated from petroleum products, as compared to the national average of 13 percent, and nearly one-half of the total energy consumed in California is petroleum.

Events following the interruption of Iranian oil production in 1978 demonstrated the need for more information about California's oil sector. The resulting gasoline shortage at the retail pumps in the spring of 1979 had a strong impact on the California economy, specifically recreational vehicle sales, tourism, the hotel and motel industry, sales of large American cars, and businesses that rely heavily on their motor vehicles. As a move to reduce the state's vulnerability to future gasoline crises, the Legislature passed the Petroleum Industry Information Reporting Act of 1980 (SB 1444). The act was designed to use petroleum industry data to predict shortages; provide an independent verification of petroleum supply, demand, and price trends; and facilitate appropriate state actions to alleviate impacts of insufficient supplies. The regulations under PIIRA will also elicit information from the oil companies on their investments in such critical areas as refinery modifications, pipelines, and synfuel development.

Currently, the most important source of petroleum supply information for the State of California is the Quarterly Fuel and Energy Summary (QFES) prepared by the Energy Commission. The petroleum-related firms that report under QFES are producers, refiners, utilities, and major marketers. Producers report inventories, crude oil production, deliveries, exchanges, and prices. Refiners provide information on origins of crude oil, refinery feedstocks, refinery outputs, and refinery inventories. Utilities report oil received, oil burned, inventories, and heat value and price of oil burned. The major marketers who report include the refiners who market products and five non-refining marketers. The QFES information system misses most storers of products below the refinery level, as well as data on distributors, jobbers, resellers, and major end users. Much of the federally collected data is not specific to California and may be six months to two years behind events.

The reporting system for PIIRA is based on 12 new forms that decrease by 67 percent the petroleum information requirements formerly supplied under QFES. The information submitted will establish a monthly data base against which each new month's data can be compared to establish trends and normal seasonal patterns. After experience with the system, when one complete cycle of annual information has been analyzed, the system design will be re-evaluated for possible revisions, either to obtain additional information to fill an important gap or to remove some data items that have become unnecessary.

## Prices and Profits

### Petroleum Price Trends

#### Gasoline

Nationwide, the retail price of gasoline continued to rise throughout the first quarter of 1981. Spurred by recent crude oil price increases by OPEC in December 1980, the President's decontrol of domestic crude oil (January 28, 1981) contributed to a rapid price increase for all grades of gasoline. During the fourth quarter 1980, gasoline prices remained relatively stable at $1.23 per gallon (Table 4). A dramatic price increase occurred during the first quarter of 1981 when nationwide gasoline prices rose from $1.27 per gallon in January to $1.39 per gallon in March.

XX

TABLE 4

Average California Retail Prices For Motor Fuel
(cents per gallon)

| | Jan. | Feb. | Mar. | Average 1 Qtr 81 | Average 4 Qtr 80 | Average 1 Qtr 80 | Change from Last Quarter | Change from Last Year |
|---|---|---|---|---|---|---|---|---|
| Regular Grade | 128.5 | 136.2 | 137.7 | 134.1 | 125.7 | 119.1 | 6.6% | 13.0% |
| Unleaded Grade | 134.5 | 141.8 | 142.5 | 139.6 | 131.6 | 123.3 | 6.1% | 13.0% |
| Premium Grade | 137.6 | 146.1 | 148.1 | 143.9 | 134.3 | 125.0 | 7.1% | 15.0% |
| Weighted Avg.[1] | 131.4 | 138.7 | 140.1 | 136.7 | 128.6 | 121.5 | 6.0% | 13.0% |
| Diesel | 119.7 | 119.5 | 121.5 | 120.3 | 115.0 | 112.0 | 4.6% | 7.4% |

---

[1] Weighted average of full service, self-serve, all grades.

Californians paid an average of $1.36 per gallon (all types) for the first quarter of 1981. The gasoline price increase in California from October 1980 to March 1981 was similar to national price patterns for the same period. Prices remained stable at $1.29 per gallon between October and December 1980 followed by an 8.7 cents per gallon increase from January to March 1981. During the past year, although the average price of gasoline was higher than the national average, the price of gasoline increased at a slower rate in California. Staff projections suggest that the California motorist will have paid an average of $1.41 for a gallon of gasoline during the second quarter.

Mr. MITCHELL. Thank you, Mr. Washington. First of all, I want to respond to two out of your three questions. I can speak for myself as one member of this committee. I hope I can speak for what is a general consensus on the committee that we do not—I do not consider these programs giveaway. I think they are absolutely necessary if ever we are to move blacks and minorities toward economic power in this country.

Second, the reference to why is it that we have hearings. I think it is imperative that we have hearings for one reason, to determine what, if anything, is going wrong with the programs.

Two, to make out a case of success stories to negate or nullify some of the constant criticisms that are raised. And, No. 3, to look at new approaches to the same old problems. The hearings which we have are not designed to denigrate, necessarily, the Federal efforts but to improve them and iron out the problems. Along that line, I would respectfully request that you submit to this committee at some future date as soon as possible the names of those companies that you know who are deliberately circumventing Public Law 95-507. I think they can be dealt with. I think the agencies that give them contracts can be dealt with. We have done that in the past.

Might I also suggest that I take some issue with your statement that the law does not work. It is working in many, many instances. That is why we are getting letters of complaint from the other side saying, look, we are not getting the contracts because of Public Law 95-507. So I will take some issue with your statement that the law itself is a complete failure. It certainly is not, based upon my own personal knowledge and based upon some of the concerns that we are receiving from those who I assume oppose Public Law 95-507.

A couple of questions I would like to ask you. No 1, your 10-percent bid preference in the State of California, when was that enacted into law?

Mr. WASHINGTON. I am not sure if it is 5 percent or 10 percent. I believe it was 10 percent. It has been in existence for some time. It is not a new program.

Mr. MITCHELL. I understand it is 5 percent. To the best of your knowledge, has there been any attempt to change that law? Has there been strong resistance, strong lobbying efforts to change that law?

Mr. WASHINGTON. That I am not aware of.

Mr. MITCHELL. The reason I raise the question is I can just see certain majority companies raising holy hell, saying, "Look, you are placing us at a disadvantage"—I don't believe that is true. "You are placing us at a disadvantage because we start off with a 5-percent—because the other firms start off with a 5-percent advantage."

I am curious and I hope the staff will take a look at how that law has been operating in the State of California, what resistance it is encountering. I think that would be beneficial to us.

Third, the second question I wanted to raise to you is with reference to tax incentives. The question is in two parts.

No. 1, if the majority community, majority business community, is as loathe as you indicate to do business with the minorities, what in the world makes you think that any kind of incentive is going to increase their willingness to do business with the minority.

Part 2, can you name some specific incentives that you are talking about—15 percent, some sort of tax writeoff, simply because they adopt a minority firm?

OK.

Mr. WASHINGTON. First of all, your first question, as to whether or not the incentives will do anything to help, whereas the situation now doesn't really work. Well, I think most majority business persons are just that, they are business persons—at the top. And I think if programs like that are taken to the top, and they can filter down, then there is a strong argument—there cannot be as much justification not to do business with minority entities.

Mr. MITCHELL. May I interrupt you just a minute and point out what I think is a somewhat analogous situation? There are tax incentives on the books right now, the law is providing tax incentives to businesses who would hire disadvantaged youth. We have gotten reports that the businesses have simply ignored those tax incentives. Now, that is not a precise analogy. But I just have a serious question in my mind, if they are being so adamant in their opposition to working with minority businesses, I would question whether or not a tax incentive, which would be a fair one and not an exorbitant one, whether that would do the job.

Mr. WASHINGTON. Well, I don't know. Just from where I sit, I feel that the minority companies would have another tool to try and get over some of the hurdles that they have been facing—where as far as employment is concerned, I as an employer, I think I would think twice about the benefits of using unskilled individuals and taking advantage of what those tax incentives might be. It could be so small that it is really not worthwhile doing. If I am an employer and I employ 10 people and I am going to get a tax incentive to hire minority individuals and I am going to get a writeoff, if that writeoff is going to amount to $1,000, is it really worthwhile for me to go through those machinations for $1,000 whereby if a minority entity can supply me with goods and services, and I in turn—it is going to cost me $100,000 to do business with this minority entity, and I can write off $25,000 ultimately, then that makes good business sense, and that is something I would entertain and like to do. Because those are meaningful dollars coming back to me. Whereas from an employer kind of relationship, we are looking small at dollars, I think.

Mr. MITCHELL. My time is up. I don't want to take advantage of my colleagues. Let me just indicate to you—and I am not writing off this approach, but some of the weaknesses I see in it. A majority firm may not do that large a percentage of business with a minority firm. You take one of the joint oil firms. They do a contract with a minority firm. It would not be that much of a percentage of their business, so that they would feel inclined to utilize a tax incentive. Maybe we will get a chance to talk about this a little later.

Congressman Crockett?

Mr. CROCKETT. Thank you, Mr. Chairman.

Mr. Washington, I don't think you realized at the time of your testimony that both my colleagues, Mr. Siljander and I are from the great State of Michigan, the home base of Chrysler Motor Co. I gather you have serious misgivings about whether or not the Federal Government should have come to the aid of Chrysler.

Mr. **WASHINGTON**. No, I think they should have come to their aid.

Mr. **CROCKETT**. I think the important consideration is what is happening in the area of employment. And I don't think that was a particularly significant consideration in creating the Small Business Administration. Your firm, for example, only has 15 employees. In my district, which is in the heart of Detroit, all of the downtown area and a considerable portion of the manufacturing area, we have perhaps the highest rate of unemployment in the country. And for that reason, we are extremely grateful to the Federal Government for coming to the aid of Chrysler, to enable us to do something with that unemployment problem—a substantial portion, if not the majority, of which represents black citizens in that area.

I get the feeling that you feel that the Federal Government has an obligation to make sure that minority businesses earn a profit. I don't share that feeling. I think it has an obligation to make sure that minority business exists in order to give minorities the experience necessary to enable them to go out and into an integrated business world and hold their own. That is one reason why I feel that something has to be done about this whole business of graduation.

I don't think there is any obligation on the part of the Federal Government to keep minority firms under the 8(a) program until such time as they become, as you say, viable—viable meaning making a substantial profit. I would like to have your reaction to that.

Mr. **WASHINGTON**. Well, I guess it goes back to why was the 8(a) program established in the first place. And I think some of the reasons that we have discussed are the reasons why the program was established. To have a program and have minorities function on it and not be able to graduate off of the program into the majority community and compete, then why have a program.

Mr. **CROCKETT**. What do you think should be the criteria for graduation?

Mr. **WASHINGTON**. Well, I think that would vary from industry to industry. But I think it should be a program that would be a gradual graduating effect, whereby the minority 8(a) contractor, regardless of the industry it may be in, has had some time to develop historical relationships that will be able to perpetuate itself in the majority community after 8(a). I would say when a firm reaches 65 percent or 70 percent of commercial business, graduate down from 8(a) business, would be a time that they could sustain on their own—after they have existed with that kind of track record for a period of time. And I certainly don't feel that 5 years is an adequate time for a minority firm to function in the majority community with 40- or 50-percent majority community business. I think they need to be out there with the cushion of the 8(a) program for at least 5 years, on a 60–40 kind of split. And after that period of time, I think given the state of the economy and the particular industry that the minority firm is in will dictate how fast they can graduate and be competitive in the majority community.

Mr. **Crockett**. Thank you, Mr. Chairman.

Mr. **Mitchell**. Mr. Siljander?

Mr. **Siljander**. No questions, Mr. Chairman.

Mr. **Mitchell**. Thank you very much. I hope we can get a chance—I better not do it that way. Why don't you when you get an opportunity sort of jot down on a piece of paper the kinds of tax incentives that you would want to offer to the majority business community, under what circumstances, a kind of full picture of what you are proposing. If you do that and send it to me, we can circulate it to the members of the entire House Small Business Committee.

Mr. **Washington**. If I could add one thing. We would graduate off the 8(a) program tomorrow. I don't necessarily want to be on the 8(a) program. I think there is a misgiving that a lot of black firms want to be on the 8(a) program. I don't really want to be on the 8(a) program because of the problems involved. But there is really no alternative. If I was able to give the tax incentives I am speaking of to one railroad company—if we were able to show them how we could be competitive with the major oil companies, we could do $100 million of business next year. So I would be more than happy to give you that information.

Mr. **Mitchell**. Over the last week I have heard some very interesting comments from businesses that are with the 8(a)—at least six of them have secured relatively lucrative contracts, big contracts, and they are long term, over a period of 3 years. And each one of those six firms has said that is what we finally needed. And they voluntarily now are asking to come out of the 8(a) program. I think that is another approach—if we can find a pretty good contract of some duration, and say this is your last shot, if you can see this as your breakthrough point, when you want to come off 8(a). And these six firms said yes, they would.

Thank you very much, Mr. Washington.

I understand that some of our witnesses have shown up who were not here earlier.

What I would like to do is hear from those witnesses who have been waiting. That is Ms. Maria Belanger and Mr. Richard Rasmussen, and then we will hear from Ms. Allen, Mr. Gevirtz, and Mr. Williams.

So we will hear from Mr. Rasmussen and Maria Belanger first.

## TESTIMONY OF RICHARD O. RASMUSSEN, PRESIDENT, SPACE VECTOR CORP., NORTHRIDGE, CALIF.

Mr. **Rasmussen**. Honorable Chairman, honorable committee members, it is a pleasure to be here with you today.

By way of background, I'm president of Space Vector Corp., a small business up until about 1½ years ago when we were bought out. I am also a partner in International Irrigation Research Co., which is a small business engaged in modern irrigation practices. So my interest spans quite a wide field.

I have been a member and I am presently a director of the American Association of Small Research Companies. I was a delegate to the White House Conference on Small Business.

I would like to read my statement, and add some parenthetical material which has arisen.

My statement bears specifically on S. 881, the Small Business Innovation Research Act of 1981, and its companion bill which I believe is H.R. 5607.

As an elected delegate to the 1980 White House Conference on Small Business, I am aware of the wide-ranging concerns and proposals of small business to strengthen this essential segment of our economy. Of those many issues, I have selected the small business innovation research as one of the most important areas of focus.

Americans now face an unparalleled challenge technologically from Japan and Western Europe. Even countries as small as Singapore have drawn a bead on our technology. Our balance of international trade would be disastrous over the last few years had it not been for our high technology; that is, computer. As a matter of fact, I believe American agriculture and high technology account for a good deal of whatever we do now maintain in terms of a balance of foreign trade. So that is a very important aspect of the American economy.

Over the years, Japan, for example, with industry and Government working hand and glove, has systematically penetrated optics, consumer electronics, and the automotive industries, to name a few. In the United States, we have seen our lead in many areas eroded because of an adversely relationship between Government, business, and labor. We can no longer afford the luxury of pulling in different directions if we expect to maintain our current standard of living. I think that is an important point. I want to return to that later.

Because research and development is the wellspring of our high technology and its concurrent economic benefits, we must take immediate steps to strengthen and encourage R. & D. in the United States. Small business makes a much larger contribution to innovative R. & D. than is generally perceived. I submit a partial list of such innovative contributions by small businessmen as an example for the committee.

This list is taken from a Department of Commerce report called, "Technological Innovation: Its Environment and Management," 1967. At that time there were 33 examples, very well-known products and technologies, which were the exclusive contribution of small business—usually individual inventors or small companies. Very sophisticated high technology work done by very small firms.

[Information referred to above follows:]

## Partial List of Innovative Contributions by Small Businessmen

| | | | |
|---|---|---|---|
| XEROGRAPHY | Chester Carlson | JET ENGINE | Frank Whittle |
| DDT | J.R. Geigy & Co. | FREQUENCY MODULATION RADIO | Edwin Armstrong |
| INSULIN | Frederick Banting | | |
| VACUUM TUBE | Lee de Forest | SELF-WINDING WRISTWATCH | John Harwood |
| ROCKETS | Robert Goddard | | |
| STREPTOMYCIN | Selman Waksman | CONTINUOUS HOT-STRIP ROLLING OF STEEL | John B. Tytus |
| PENICILLIN | Alexander Fleming | | |
| TITANIUM | W.J. Knoll | HELICOPTER | Juan de La Cierva<br>Heinrich Focke<br>Igor Sikorsky |
| SHELL MOLDING | Johannes Croning | | |
| CYCLOTRON | E.O. Lawrence | MERCURY DRY CELL | Samuel Ruben |

| | | | |
|---|---|---|---|
| COTTON PICKER | John & Mack Rust | POWER STEERING | Francis Davis |
| SHRINK-PROOF KNITTED WEAR | Richard Walton | KODACHROME | L. Mannes<br>L. Godowsky, Jr. |
| DACRON POLYESTER FIRBER "Terylene" | J.T. Dickson | AIR CONDITIONING | Willis Carrier |
| CATALYTIC CRACKING OF PETROLEUM | Eugene Houdry | POLAROID CAMERA | Edwin Land |
| ZIPPER | Whitcomb Judson<br>Gideon Sundback | HETERODYNE RADIO | Reginald Fessenden |
| AUTOMATIC TRANSMISSION | H.F. Hobbs | BALL-POINT PEN | L. & G. Biro |
| GYROCOMPASS | A. Kaempfe<br>E.A. Sperry<br>S.G. Brown | CELLOPHANE | J. Brandenberger |
| | | TUNGSTEN CARBIDE | Karl Schroeter |
| BAKELITE | Leo Baekeland | | |
| OXYGEN STEELMAKING PROCESS | C.V. Schwartz<br>J. Miles<br>R. Durrer | | |

Mr. RASMUSSEN. This study and others have continually shown a very high yield per dollar spent on technical innovation by the small company. The encouragement of this source of R. & D. by the passage of the Small Business Innovation Research Act will help assure the country of the wellspring of technology essential to economic strength.

S. 881 does not increase the Federal budget in any way. It does, however, assure that small business will receive by law eventually up to 1 percent of the R. & D. budget of any Federal agency whose research budget exceeds $100 million. That seems like a small percentage. But, I believe the Government and the country generally would benefit substantially from that assuring of a certain amount of research to small business through the small business innovative research program.

This approach to assuring small business at least a small piece of the Federal R. & D. budget is already being applied through earlier law at the National Science Foundation—NSF. NSF now has a small business innovation research program. To my knowledge, it is quite successful. The Department of Defense recognized without legislation the benefits of this cost-effective source of R. & D. and has recently initiated its own small business advanced technology program.

I would like to read briefly the provisions of the Senate bill 881 as relates to—and it is rather simple and short—on page 5 of that bill, line 10, it says:

> Each Federal agency which has a research or research and development budget in excess of $100 million for any fiscal year beginning with fiscal year 1982 shall expend not less than two-tenths of 1 percentum of such budget for fiscal year 1982, not less than six-tenths of 1 percentum for fiscal year 1983, and not less than 1 percentum of such budget for all subsequent fiscal years with small business concerns, specifically in connection with a small business innovation research program which meets the requirements of this act and regulations issued hereunder.
>
> Funding agreements with small business concerns for research and development, which result from competitive or single source selections other than under the SBIR program shall not be counted as meeting a portion of the percentage required in this section.

That is to say, it is a graduated program. It shouldn't work much of a disadvantage to the agencies that have that type research budgets, because it will be tapered in. Furthermore, it is a specific program aimed at research for small business, and it is not to be circumvented. It is a separate and distinct program. It is not a large percentage, but I think it can work highly in favor of the country and the Government and certainly small business.

I won't go into the other details here as relates to the bill. I think it is a brief but very precise and compact bill as relates to assisting research and development in this country.

I would like to make a comment to Congressman Crockett, who picked up on the aspect of the loan to Chrysler. I believe that we have a situation that is interesting in its complexity.

Part of the reason that Detroit is in trouble, and the American automotive industry is in trouble, is because Japan has been unusually innovative in their automotive devices, the way they build cars, the way they design for certain markets. Their government has worked very, very closely with their industry to penetrate foreign markets. So the fault is not all with American industry itself, and certainly not the workers who are suffering from this.

I think that the United States cannot go through a patchwork of economic fixes at levels that don't get to the root cause. Part of the root cause is that this country is not devoting sufficient of its energy and resources into technology which ultimately streams down into the jobs of the future, and results in exports for this country.

I think—I'm not sure of my figures, Mr. Chairman, but I believe that industry and the Government combined now spend something like one-half the amount on R. & D. relative to the gross national product that it did some 25 years ago. I think we are seeing the serious consequences of that in the very fact that Detroit and other areas are in serious trouble. The countries that are devoting more substantial amounts of their money through all types of tax devices and other direct support into R. & D. are the ones that are doing well economically. And I think this country has to reverse its trend. This particular bill is a very small step in that direction, it costs no additional Federal budget money. But in point of fact it does assure that the small businessman—who is, incidentally, an innovator of considerable note—will receive his share of this process. He will I think, return it manifold to the country and business community generally.

Thank you very much.

[Additional material supplied by Mr. Rasmussen for the hearing record follows:]

Exhibit 1

# PROGRAM SOLICITATION
# for
# SMALL BUSINESS INNOVATION RESEARCH

## Summary

The National Science Foundation (NSF) invites science-based and high-technology small business firms to submit research proposals under this program solicitation entitled Small Business Innovation Research (SBIR). Firms with strong research capabilities in science or engineering in any of the following topic areas are encouraged to participate. NSF will support high-quality research proposals on important scientific or engineering problems and opportunities that could lead to significant public benefit if the research is successful.

Objectives of the solicitation include stimulating technological innovation in the private sector, increasing the commercial application of NSF supported research results, and improving the return on investment from Federally funded research.

Proposals will be considered in the following topic areas:

1. Conservation of Materials and Resources
2. Bio-Sources of Materials
3. Genetic Technology
4. Advanced Manufacturing Processes
5. Advanced Chemical Processes
6. Industrial Biological Processes
7. Microelectronics
8. Communications and Systems
9. Computer Science and Engineering
10. Robotics and Controls
11. Scientific and Industrial Measurements
12. Radiation Processing and Control
13. Light Machinery and Components
14. Advanced Automotive Research
15. Food Process Engineering
16. Marine Resources
17. Mineral Resources
18. Environmental Technology
19. Tunneling, Drilling, Excavation, and Dredging
20. Earthquake Engineering
21. Science and Technology to Aid the Handicapped
22. Appropriate Technology

It is anticipated that this solicitation will result in approximately 80 awards of up to $30,000 each to individual small business organizations under Phase I of a three-phase program. Phase II awards have averaged $200,000 and will be made to those companies with approaches that appear most promising as a result of the first phase. Phase III is the development phase to pursue commercial applications, and will not be funded by NSF. Both Phases I and II may include a fee.

**This solicitation is for Phase I proposals only at this time.**

NSF is interested in research on advanced concepts in scientific or engineering areas, particularly where the research may serve as a base for technological innovation.

*Note: NSF does not fund* product development, technical assistance, or pilot-plant efforts. It normally will not support clinical research nor does it fund market, classified, or weapons-related research. NSF also coordinates its funding decisions with other Federal mission agencies that support research in areas of mutual interest. Research specifically targeted to the energy field should be referred to the Department of Energy.

### Converting Research to Technological Innovation and Commercial Applications

In addition to the funding of applied science and engineering research, a second important goal of the solicitation is the conversion of NSF-supported research into technological innovation by private firms for its socio-economic benefits to the Nation. Therefore, on an optional basis, the solicitation includes an incentive for proposers to obtain a contingent commitment prior to Phase II for private follow-on funding to continue the innovation process where it is felt that the research also has commercial potential. Federal funding pays for research on NSF objectives (Phases I and II); private capital provides for follow-on developmental funding to meet commercial objectives (Phase III).

Proposers who feel that their research has the potential to meet market needs, **in addition to meeting the research objectives of the solicitation,** are encouraged to obtain private venture capital or other follow-on funding to pursue the development phase. The commitment for the follow-on funding must be from a third party. The commitment should be obtained during or immediately following Phase I. This commitment may be contingent on the NSF supported research meeting a few specific technical objectives in Phase II which, if met, would justify private investment to pursue further development for commercial purposes in Phase III.

Phase I proposals which (1) briefly describe potential commercial applications of the research and (2) that the proposing firm intends to obtain follow-on funding for further development, **will receive extra consideration as a point of merit in the evaluation process.** Similarly, Phase II proposals that provide a commitment for follow-on funding also will receive extra consideration as a point-of-merit in the evaluation process. The maximum value will be given when the Phase II proposal is accompanied by a signed contingent agreement for follow-on funding equal to or in excess of the request for Federal support in Phase II.

**The awardee will be permitted to obtain commercial rights to an invention** made in either phase, subject to certain conditions, in accordance with NSF patent regulations.

**Phase I—Feasibility Research**

Phase I is to conduct advanced applied research on the proposed innovative idea or approach. The proposal should concentrate on that **research** which will significantly contribute to proving the feasibility of the approach or concept and which would be prerequisite to further research and NSF support in Phase II.

Phase I also is designed to reduce the investment of time and cost to small firms in preparing a formal proposal under this solicitation as compared to other NSF formal proposals. The entire Phase I proposal is limited to 20 pages, including the cover page, budget, and any attachments. Awards will be made by NSF based upon evaluation of Phase I proposals. All proposers will be informed of those receiving awards, and successful proposers will then have six (6) months to carry out their proposed Phase I effort. Phase I results are to be submitted in a final report.

It is anticipated that Phase I will result in fixed-price awards of a specific amount up to $30,000. Since price competition is not a factor in Phase I, the basis of selection will be the best value to the Government in terms of the criteria described on page 29. Payments will be made as follows: one-third at the time of award, one-third three months after award, and the remainder upon acceptance of the final report by NSF.

**Phase II—Principal Research Project**

Phase II is the principal research effort. Only those receiving Phase I awards will be eligible to submit Phase II proposals.

Phase II proposals must be submitted within thirty (30) days after the expiration date of Phase I award. They may be submitted earlier but not prior to the submission of the Phase I final report. Phase II proposals must be prepared in accordance with the booklet "Grants for Scientific Research" (NSF 78-41), which is available upon request from the Forms and Publications Unit, National Science Foundation, Washington, DC 20550.

Phase II proposals may request support for up to three professional person years level of effort annually, depending upon the scope of the research, for a period up to 24 months. Prior Phase II grants have averaged $200,000. It is estimated that between one-third and one-half of Phase I awardees will receive Phase II awards.

**Phase III—Development**

This phase, conducted by the small business firm, is privately funded from a third party source through the exercising of the follow-on funding commitment. Phase III is to pursue commercial objectives from the NSF research base established in Phases I and II.

**Limitations**

A proposal must be limited to one topic or subtopic* listed in this program solicitation. When a proposal has relevance to more than one topic, the proposer must decide which topic is the most relevant and submit it under that topic only. However, an organization may submit separate proposals on different topics or different proposals on the same topic under this solicitation.

This solicitation does not obligate the National Science Foundation to make any specific number of awards under either Phase I or Phase II.

**Eligibility**

Each organization submitting a proposal must qualify as a small business for research purposes as defined by the Small Business Administration (SBA). In addition, the primary employment of the principal investigator must be with the small business firm at the time of award.*

**Schedule**

To be considered for this program solicitation, Phase I proposals must be received by the National Science Foundation by 5:00 p.m., EST, April 1, 1981. Awards are anticipated by September 30, 1981, for a Phase I performance period of October 1, 1981—March 31, 1982. Phase II awards are anticipated by September 30, 1982.

## SCHEDULE

| | |
|---|---|
| **Phase I** | |
| Proposal due at NSF | by April 1, 1981 |
| Notification of awards and declinations | September 1981 |
| Period of research performance | October 1, 1981—March 31, 1982 |
| Report due at NSF | by March 31, 1982 |
| **Phase II** | |
| Proposal due at NSF | by April 30, 1982 |
| Commitment for follow-on funding for Phase III | by June 30, 1982 |
| Notification of awards and declinations | September 1982 |
| Beginning of period of research performance | October 1, 1982 |

## DEFINITIONS

The following definitions apply for the purposes of this solicitation:

- *Research*—Investigations directed at the discovery of new scientific knowledge which may contribute to the design of devices, products, processes, or systems and be carried through the construction and evaluation of a laboratory prototype, where necessary.
- *Development*—Technical activities of a nonroutine nature concerned with translating research findings or other scientific knowledge into products or processes. For example, where the original research proposed is minimal and the problem is essentially one of design or packaging of existing knowledge or technology into a new format or is the testing of a product for commercial purposes, the effort is development.
- *Clinical Research*—The diagnosis or treatment of disease, abnormality, or malfunction in people or animals or testing of drugs or procedures for their treatment.
- *Small Business*—A concern organized for profit, independently owned or operated, not dominant in the field in which it is bidding, and having an average of not more than 500 employees (full-time, part-time, temporary, or other) during the previous 12-month period in all affiliated firms. (From Code of Federal Regulations, Title 13, Part 121 as amended).
- *Minority Owned and Operated Firm*—A qualified small business firm that is owned, controlled and operated by one or more minority persons (Black, Hispanic, Native American or Asian Pacific) who are citizens of the U.S.
- *Woman Owned and Operated Firm*—A qualified small business firm that is owned, controlled, and operated by one or more women who are citizens of the U.S.

Exhibit 2

# DEFENSE
# SMALL BUSINESS
# ADVANCED TECHNOLOGY PROGRAM

## I. ANNOUNCEMENT OF PROGRAM

The Department of Defense (DoD) encourages small business firms which have strong research and development capabilities and experience in high-technology science or engineering to submit proposals to the Departments of the Army, Navy, Air Force and the Defense Advanced Research Projects Agency (DARPA) under the Defense Small Business Advanced Technology (DESAT) Program.

This program seeks to promote innovative solutions to important scientific and technical problems facing the defense community by utilizing the resources of small science and technology-based firms in DoD research and development. Participation is encouraged by a simplified, three-phase research and development procurement process.

**Technical Areas of Interest**

The following topics are proposed for study under the DESAT Program. They are explained in more detail in Section III of this document:

- Acoustics (Navy #1, Navy #2)
- Aerodynamics (Air Force #1)
- Artificial intelligence and stochastic processes (Air Force #4)
- Chemical detection and decontamination (Army #1, Air Force #5)
- Combustion processes (Army #2, Air Force #1, Air Force #2)
- Computer architecture and software development (Navy #3, DARPA #5)
- Computer graphics and control displays (Navy #4, DARPA #3)
- Disease prevention and treatment—Biotechnology (Army #3)
- Electromagnetics (Navy #1, Navy #4)
- Electronic communications and noise suppression (Army #5, Navy #2)
- Fluid mechanics (Air Force #2)
- Human performance and productivity measurement (Army #4, Navy #4)
- Lasers and photo-optics (Navy #3, Navy #5, Air Force #3, DARPA #2)
- Manufacturing process (Air Force #3)
- Materials and coatings (Army #1, Army #2, Navy #5)
- Navigation (Navy #2)
- Nuclear burst and radiation detection (Army #2, Navy #1)
- Ocean physics and engineering (Navy #2)
- Ocean Science (Navy #2)
- Solar and electrical power (Army #2, DARPA #1)
- Solid lubrication (DARPA #4)

**Phase I—Feasibility Research and Development**

Phase I of this program will support feasibility-related experimental or theoretical research and development effort on a proposed idea or approach to a scientific or technical need. DoD anticipates awarding approximately 100 contracts for up to $50,000 each for feasibility research and development over a period of performance not to exceed six months. The Phase I effort should concentrate on that research and development which will significantly contribute to proving the feasibility of a suggested approach or concept within the time and dollar constraints established, and which will be preliminary to further research and development in Phase II.

Phase I is also designed to simplify the preparation of research and development proposals. The research plan should be between 7 and 10 pages, and the entire Phase I proposal is **limited to 20 pages, including the cover page, abstract and cost breakdown.**

### Phase II—Principal Research and Development Project

Phase II is designed to allow for full-scale research and development of suggested approaches which have been judged most promising. Research and development contracts of up to $500,000 each will be awarded in Phase II, contingent upon favorable evaluation of a first phase report and a Phase II proposal.

### Phase III—Follow-on Development or Production

Phase III of the program will include follow-on development of the project, when necessary, or production where appropriate. DoD will be eager to pursue application of innovative technologies produced as a result of Phase II. For this reason, follow-on development and/or production contracts may be anticipated for technologies that are judged useful in meeting the needs of DoD.

While the Defense Small Business Advanced Technology program is designed primarily to meet the research and development objectives of DoD, an important secondary goal is the conversion of this R&D into technological innovation for public service and economic benefits to the Nation. Therefore, on an optional basis, the program encourages contractors to pursue commercial applications of their research and development. (See Section VI, Inventions and Patents).

**Only Phase I proposals will be considered under the DESAT program at this time.**

### Eligibility

Each firm submitting a proposal must qualify as a small business for research and development purposes, defined as follows: Small Business - A U.S. concern organized for profit, independently owned or operated, not dominant in the field in which it is bidding, and having an average of not more than 500 employees (full-time, part-time, temporary, or other) during the previous 12-month period in all affiliated firms. In addition, this program requires that **the primary employment of the principal investigator must be with the small business firm at the time of award.**

### Schedule

In order to allow time for proposal evaluation and contract negotiation prior to the initiation of work, offerors should submit their proposals before August 31, 1981. This will permit successful offerors to undertake Phase I performance within the six month period of December 1981 to June 1982. (See also **Instructions** for submitting proposals).

This announcement is not an offer by the Department of Defense and does not obligate the Department of Defense to make any specific number of awards. Also, awards under this program are contingent upon the availability of funds for research and development.

The Defense Small Business Advanced Technology Program is not a substitute for current unsolicited proposal mechanisms. It is designed to augment existing acquisition processes and to better inform DoD research offices of the technological potential of the small business community.

# II. INNOVATION AND SMALL BUSINESS

Innovation is a subject of major importance to the Nation. Technological innovation is often credited with being the most important single contributor to the economic and military strength of the United States. Although innovative research in the fields of science and engineering has helped to resolve many problems of the past, the United States continues to face many problems of increasing complexity and technical content, especially in relation to National defense.

Recognizing that small business has an established record for innovation, the DoD is interested in increasing the participation of this important national resource in DoD research and development to meet National defense needs. Innovative research and development by small business firms can make significant contributions to this Nation's defense through the solution of important problems or the exploitation of new opportunities. In turn, DoD supported research and development may provide a small business concern with the basis for new potential products, processes, and services.

The DESAT program seeks to increase the incentive and opportunity for small firms to undertake high risk research and development that has a high potential payoff if successful. Major technological innovations often require such high risk investment which can effectively lower the risk for follow-on production. DoD support of the front-end research and development on new ideas, often the highest risk part of the innovation process, may provide a way for such research and development to take place.

## Research Proposals

The purpose of submitting research and development proposals is to provide sufficient information to persuade a Military Department or DARPA that the proposed work represents a sound approach to the investigation of an important scientific or engineering question, and that it is worthy of support.

A proposal should be self-contained and written with the care and thoroughness accorded papers for publication. Each proposal should be reviewed carefully by the offeror and possibly by others knowledgeable on the subject to ensure inclusion of data essential for evaluation.

Exhibit 3

II

97TH CONGRESS
1ST SESSION

# S. 881

To amend the Small Business Act to strengthen the role of the small, innovative firms in federally funded research and development, and to utilize Federal research and development as a base for technological innovation to meet agency needs and to contribute to the growth and strength of the Nation's economy.

---

IN THE SENATE OF THE UNITED STATES

APRIL 7 (legislative day, FEBRUARY 16), 1981

Mr. RUDMAN (for himself, Mr. WEICKER, Mr. HATCH, Mr. HUDDLESTON, Mr. BAUCUS, and Mr. HAYAKAWA) introduced the following bill; which was read twice and referred to the Committee on Small Business

---

# A BILL

To amend the Small Business Act to strengthen the role of the small, innovative firms in federally funded research and development, and to utilize Federal research and development as a base for technological innovation to meet agency needs and to contribute to the growth and strength of the Nation's economy.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

SECTION 1. This Act may be cited as the "Small Business Innovation Research Act of 1981".

SEC. 2. (a) The Congress finds that—

(1) technological innovation creates jobs, increases productivity, competition, and economic growth, and is a valuable counterforce to inflation and the United States balance-of-payments deficit; and

(2) while small business is the principal source of significant innovations in the Nation, the vast majority of federally funded research and development is conducted by large businesses, universities, and Government laboratories.

(b) Therefore, the purposes of this Act are—

(1) to stimulate technological innovation;

(2) to use small businesses to meet Federal research and development needs; and

(3) to increase private sector commercialization of innovations derived from Federal research and development.

SEC. 3. Section 9(b) of the Small Business Act is amended—

(1) by striking out "and" at the end of clause (2);

(2) by striking out the period at the end of clause (3) and inserting in lieu thereof "; and"; and

(3) by adding at the end thereof the following:

"(4) to develop and maintain a source file and an information program to assure each qualified and interested small business concern the opportunity to participate in Federal agency Small Business Innovation Research programs;

"(5) to coordinate with participating agencies a schedule for release of SBIR solicitations, and to prepare a master release schedule so as to maximize small businesses opportunities to respond to solicitations;

"(6) to independently survey and monitor the operation of SBIR programs within participating Federal agencies; and

"(7) to report annually to the Committee on Small Business of the Senate and the Committee on Small Business of the House of Representatives on the SBIR programs of the Federal agencies and the Administration's information and monitoring efforts related to the SBIR programs.".

SEC. 4. Section 9 of the Small Business Act is amended by adding at the end thereof the following new subsections:

"(e) For the purpose of this section—

"(1) the term 'Federal agency' means an executive agency as defined in section 105 of title 5, United States Code, or a military department as defined in section 102 of such title;

"(2) the term 'funding agreement' means any contract, grant, or cooperative agreement entered into between any Federal agency and any small business for the performance of experimental, developmental, or research work funded in whole or in part by the Federal Government;

"(3) the term 'Small Business Innovation Research program' or 'SBIR' means a program under which a portion of a Federal agency's research or research and development effort is reserved for award to small business concerns through a simplified, standardized acquisition process having a first phase for determining, insofar as possible, the technical and economic feasibility of ideas proposed under the program, and a second phase, the awarding of which shall take into consideration the potential commercial applications of the research or research and development, to further develop the proposed idea to meet the particular agency needs; and a third phase where private capital pursues commercial applications of the research or research and development; phase three may also involve follow-on projection contracts with some agencies for products or processes intended for use by the United States Government; and

"(4) the term 'research' or 'research and development' means any activity which is (A) a systematic study directed toward fuller scientific knowledge of the subject studied; (B) a systematic study directed specifically toward applying new scientific knowledge to meet a recognized need; or (C) a systematic application of new scientific knowledge toward production of useful materials, devices, and systems or methods, including design, development, and improvement of prototypes and new processes to meet specific requirements. Such term does not include studies related to the social sciences or the humanities.

"(f) Each Federal agency which has a research or research and development budget in excess of $100,000,000 for any fiscal year beginning with fiscal year 1982 shall expend not less than two-tenths of 1 per centum of such budget for fiscal year 1982, not less than six-tenths of 1 per centum for fiscal year 1983, and not less than 1 per centum of such budget for all subsequent fiscal years with small business concerns specifically in connection with a Small Business Innovation Research program which meets the requirements of this Act and regulations issued hereunder. Funding agreements with small business concerns for research or research and development which result from competitive or single source selections other than under an SBIR program shall not be counted as meeting any portion of the percentage requirements of this section.

"(g) Each Federal agency required by subsection (f) to establish a Small Business Innovation Research program shall in accordance with this Act and regulations issued hereunder—

"(1) establish an agency Small Business Innovation Research program;

"(2) determine categories of projects to be in its SBIR program;

"(3) issue SBIR solicitations in accordance with a schedule determined cooperatively with the Small Business Administration;

"(4) receive and evaluate proposals resulting from SBIR proposals;

"(5) select awardees for its SBIR funding agreements;

"(6) administer its own SBIR funding agreements (or delegate such administration to another agency);

"(7) make payments to recipients of SBIR funding agreements on the basis of progress toward or completion of the funding agreement requirements; and

"(8) make an annual report on the SBIR program to the Small Business Administration.

"(h) In addition to the requirements of subsection (f), each Federal agency which has a budget for research or research and development in excess of $20,000,000 for any fiscal year beginning with fiscal year 1982 shall establish goals specifically for funding agreements for research or research and development to small business concerns, and no goal established under this subsection shall be less in actual dollars than the amount of research or research and development awards made to small businesses in 1981.

"(i) Each Federal agency required by this section to have an SBIR program or to establish goals shall report annually to the Small Business Administration the number of awards pursuant to grants, contracts, or cooperative agreements over $10,000 in amount and the dollar value of all such awards, identifying SBIR awards and comparing the number and amount of such awards with awards to other than small business concerns.

"(j)(1) The Administrator of the Office of Federal Procurement Policy, in conjunction with the Small Business Administration, shall promulgate and issue appropriate regulations, in accordance with the provisions of subsections (f), (g), and (h) and within one hundred and twenty days after the date of enactment of the Small Business Innovation Research Act of 1981, for conduct of Small Business Innovation Research programs within the Federal Government. Such regulations shall—

"(A) provide for simplified standardized and timely SBIR solicitations, proposals, and evaluation processes; and

"(B) require Federal agencies to coordinate SBIR solicitation release schedules with the Small Business Administration.

"(2) The National Science Foundation and the Small Business Administration shall furnish the Administrator of the Office of Federal Procurement Policy advice and assistance in the promulgation of regulations under this section.".

SEC. 5. The amendments made by this Act do not authorize the appropriation of funds.

Mr. **Mitchell**. Thank you for your testimony. I think I say with reasonable certainty that there is a consensus on the House Small Business Committee to support a concept that is embodied in Senate bill 881.

I say that because if my recollection is correct, last year the House Small Business Committee passed a similar kind of bill, a much more ambitious bill, which I think moved up to 15 percent for small businesses in R. & D., that was passed out of the whole committee but unfortunately it was not acted on by the House. So based upon that action of the House Small Business Committee last year, I think there is a strong degree of consensus to support the concept embodied in S. 881.

Then you take the good with the bad. Because unfortunately, the National Science Foundation small business R. & D. program, which I think was a good program, has been eliminated in the pellmell rush to cut the budget and so forth. Under the provisions of the Gramm-Latta Reconciliation Act those funds are completely eliminated, and, therefore, there is a disincentive, really, for other agencies to institute comparable kinds of activities, which leads me to my last point.

Therefore, it is incumbent upon the Congress to come back and place these activities back in position through law. I think I can assure you that our committee would be supportive of that concept.

Congressman Crockett, any questions?

Mr. **Crockett**. No questions, Mr. Chairman.

Mr. **Mitchell**. Congressman Siljander?

Mr. **Siljander**. No questions.

Mr. **Crockett**. I appreciate the observations made by the witness with respect to the automobile industry, and I tend to share some of those observations.

Mr. **Mitchell**. Thank you very much for your very valuable testimony.

## TESTIMONY OF MARIA BELANGER, PRESIDENT, PRECISION DIPBRAZE, INC., ACCOMPANIED BY LARRY WOOD, GENERAL MANAGER

Ms. **Belanger**. I am Mary Belanger. I would like to thank you very much for having us present our problems.

Precision Dipbraze, Inc., is a small minority business, Hispanic and woman owned. We have been in business since 1974. We employ an average of 20 full-time employees.

Our capabilities and products are a machine shop, sheet metal fabrication, dipbraze of electronic chassis and cabinets, and aircraft parts and assemblies. The percentage of contracts are 90-percent military and 10-percent commercial.

In the area of problems regarding dealing with prime contractors, we do experience problems, and that is extending ourselves financially from the time we are awarded a contract until the time we receive payment for items on the contract. For example, if we receive a contract for $10,000, and the delivery date for the items are in 3 months, we usually do not receive payment until 60 days after items have circulated through and been approved by customers quality systems, which can take 30 days.

For example, items are received at the prime contractor's facility on February 1. The items then remain in the receiving department, which can take from 1 to 4 weeks. If items are accepted by prime contractor's receiving inspection, the approved documentation is sent on to accounts payable, who will, within 1 to 6 weeks, issue a check for the amount shown on invoice.

But if items are not accepted by prime contractor, then we are notified by mailing, a reject report stating reasons items are not accepted, and what rework of items are necessary for them to be accepted. But, many times we do not receive items back for rework for 2 weeks. Then when items are reworked—which could be from a wrong digit in part number to removing more material—they are sent back and the complete above process is started over. Therefore, we extend ourselves financially for an average of 6 months, as follows: One, purchase of material; two, purchase of hardware; three, cost of in-house manufacture. If parts are manufactured or partly manufactured at an approved lower tier, we must further extend ourselves. Four, cost of outside processing; that is, silkscreen, painting, and/or special testing.

So it is obvious the financial problems that can occur and accumulate when working with a number of contracts can put a financial burden on small businesses.

A possible solution would be for the prime contractor to either supply materials or extend 50 percent of contract value when contract is awarded.

To produce quality parts we must have quality craftsmen. It is difficult to attract and hire such craftsmen, due to the competition from the larger prime contractors. For example, we cannot compete with the benefits that larger prime contractors can offer—such as extended vacations, sick pay, recreational facilities, educational programs, and credit unions. So, in fact, the prime contractors are recruiting through their benefits and hiring craftsmen we need to manufacture their items.

Also, in a large facility such as prime contractors, craftsmen know that less will be required from them, due to the amount of overemployment, or there will be two or three employees to do the same job. Whereas, in a smaller facility, such as subcontractors, more will be required of the same employee. He will have to produce his share. Possible solution: Some type of aid in supporting the same benefits for the employee and potential employees of the smaller subcontractor facilities, including educational programs, family recreational benefits that employees and potential employees of larger prime contractors enjoy.

I thank you very much.

Mr. MITCHELL. Thank you. Are you in the 8(a) program?

Ms. BELANGER. No.

Mr. MITCHELL. You are not.

With reference to your last recommendation, I don't want to throw cold water on it prematurely, but I think if any of that, any part of your recommendation is going to cost the Federal Government, then it is most unlikely we are going to get it. The Congress is in an austerity mood. And I frankly don't—I would not be very sanguine about any kind of legislation being passed which would help you in any way meet those additional personnel costs with which you are involved.

Again, I would like to indicate that with reference to your prime contractor assuming more of the responsibility to protect you, my hunch is that would almost have to be done through negotiation with your prime. Maybe some of my other colleagues will comment on this. But I would find it, and I think the Members of Congress would find it exceedingly difficult to try to pass some legislation that could affect on an even basis all the primes that deal with subcontractors. I think that might present some difficulty.

I will turn to my colleagues for their questions and comments on your testimony.

Mr. Crockett?

Mr. **Crockett**. I appreciate your testimony. I really don't have any questions, thanks.

Mr. **Mitchell**. Mr. Siljander?

Mr. **Siljander**. I have no questions. It was very fine testimony.

Ms. **Belanger**. Thank you.

Mr. **Mitchell**. Thank you. I don't want to give the impression we are dismissing out of hand your possible solution. But I always think it is fair to sort of warn people what the apparent mood of the Congress is right now and how that mood might negatively impact on some of the solutions you proffered.

Ms. **Belanger**. Thank you very much. It is a pleasure to be here.

Mr. **Mitchell**. Thank you.

Our next witness is Mr. Gevirtz. Then we will hear from Mr. Williams, and then Ms. Allen.

Mr. Gevirtz, you have the option of reading your entire statement, or you can extract highlights, and your entire statement will appear in the record.

## TESTIMONY OF DON GEVIRTZ, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FOOTHILL GROUP, INC.

Mr. **Gevirtz**. Thank you. I am Don Gevirtz. I am the chairman and chief executive officer of the Foothill Group, Inc.

It is a pleasure for me to appear before this distinguished committee. This committee is to be congratulated for conducting this innovative series of hearings outside of Washington. I think it is terribly important for our Government to tap some of the expertise of Americans on the firing line who daily face and deal with some of the most complex economic problems which have confronted this Nation.

Those of us in business around the country have lived with this Nation's economic problems long enough to recognize that there are no simple or painless answers, no magical cure for those problems. We didn't get into our serious problems overnight, and we will not get out of them overnight. In economic policy, it is important that all of us understand there are no quick fixes.

For the past 15 years, Federal economic policy has oscillated between measures to prime the pump and those which have pumped the prime rate to historic levels.

Those roller coaster policies have fed inflation and then caused stagnation, which has made it terribly difficult for the most important sector of our business community—small business—to thrive and prosper. We at Foothill think we know something about small business.

The Foothill Group is a commercial finance company. We specialize in making loans to businesses which we regard as having good prospects but who are too small, or for other reasons deemed less than creditworthy by large, conventional financial institutions.

Foothill's corporate commitment is to provide an alternative to bank financing for corporations of this type. We are lending to more than 7,000 such companies across the United States. These kinds of companies, with annual sales in the range of $1 million to $25 million, account for 97 percent of all business enterprises in the Nation and produce 43 percent of the gross national product. The number of new business starts has increased annually from 93,000 to 450,000 since 1950 without any longrun rise in the proportions of failures; 4,700 new small manufacturing companies are started every week in the United States. Paradoxically, these smaller businesses, which are the backbone of America's industry and which display many admirable qualities—including entrepreneurial dedication, innovation, and self-reliance—often have the most difficulty in obtaining financing for their growth, particularly from the public marketplace, and particularly in the form of longterm subordinated debt.

Even as entrepreneurship and innovation seem to be benefiting from a more favorable tax and regulatory environment, dark clouds are developing. The tax bill which the administration supports does not provide the tax bill treatment to America's most creative, entrepreneurial, and innovative sector—small business: 70 percent of the tax benefits will go to America's largest 2,000 companies, 30 percent will go to the segment of business which generates 90 percent of the new jobs.

The tax bill which finally reaches the President's desk should deal with the following elements:

One, increase in the corporate surtax exemption from $100,000 to $200,000; of the 2 million U.S. corporations, 99½ percent lack access to national capital markets. Retained earnings represent almost the sole source of fresh capital. I believe in supporting the winners through the taxing system. This increase will enable successful small companies to grow from their own retained profits with less reliance on outside financing.

Two, a tax increase presently contemplated for small business consists of eliminating the first year bonus depreciation on buildings under the IRS Code 179. This would add $1 billion in tax burdens over the next 5 years. This bonus depreciation should remain.

Three, the accelerated cost recovery system, formerly 10-5-3, is not a tax neutral plan. It works to the advantage of capital-intensive industries and does very little for small business.

Four, an increase in used machinery eligible for the investment tax credit up to $250,000 should be included in the tax package. Used property is necessary for independent firms, which are chronically short of capital. Accelerated depreciation will not remove the bias against used machinery, unless the investment tax credit ceiling is lifted from $100,000 to $250,000.

These are items strongly supported by the National Small Business Association. I wholeheartedly endorse them.

The incentive stock option plan proposed by the Senate Finance Committee will sharply encourage entrepreneurs to leave large corporations because their capital gains will be taxed only when they sell their stock instead of facing the current ordinary income treatment. This should become law immediately.

Interest rates at these current high levels are a direct barrier to increased productivity by small companies. Why would any entrepreneur lease or finance productive equipment when he is locked into a 5-year term at rates well over 20 percent? How can he plan when interest rates have gyrated so wildly? Interest rates not only must come down, but this administration must commit to interest rate stability so that entrepreneurs are willing and able to make long-term financial commitments.

Ever since World War II, whenever we have seen hard times on the horizon, we have reacted by adopting measures to encourage consumption to stimulate demand. Time and again, we have attempted to spend our way out of recessions. I am certainly in favor of the budget reductions you are talking about. I am against unnecessary and wasteful Government spending programs which increase demand. I am completely opposed, however, to Federal policies which force feed demand and starve supply, and therefore create an imbalance in the American economy that leads directly to inflation and declining productivity.

Even though I am for cutting the Federal budget, I am against proposals to make budget cuts in certain programs such as the Small Business Administration, which hamstring those businesses contributing so much to the supply side of our economy That is a form of the new fashionable supply side economics that is clearly counterproductive. The administration and its allies in the Congress of the United States is attempting to cut not the fat but the marrow of the bone of the Small Business Administration.

Just to cite a few—the authorization for direct lending would be reduced from $403 million to $304 million this year. SBA loans to disaster borrowers with alternative sources of credit would be eliminated. Subsidized interest rates on all remaining SBA disaster lending would be eliminated.

An indefinite moratorium on issuing and processing all small business investment companies licensed by the SBA has been eased for 104 companies whose licenses were pending in April, but what about new applicants?

The Small Business Administration has issued restraints for its loan guarantee program, 7(a). The new rules bar assistance to refinance existing SBA loans to reduce a lender's exposure or to provide help for applicants delinquent in tax payments. The agency has also withdrawn the authority of regional administrators to approve loans in excess of $150,000. Moreover, fear businesses will get the maximum 90-percent guarantee on loans as the agency attempts to stretch the $1 billion remaining in the program.

SBIC's represent one-third of all the Nation's capital committed for small business development investment. SBIC's increased their overall return from 22.4 percent in 1979 to 25.3 percent in 1980, a 13-percent increase.

If this administration is committed to emasculating the SBA in this manner, it might as well eliminate the agency altogether and pass the savings along to small business. For fiscal year 1982, as long as you consider the agency's operating budget, loan and loan guarantee commitments together, taxpayers would save $1.6 billion if the agency were eliminated.

I don't endorse this approach. However, I believe it is preferable to leaving the SBA impotent to make any serious economic impact on the constituency it serves.

The administration is correct in its view that the current economic difficulties besetting America threaten the future economic and political stability in the world's greatest democracies. For over a generation we have demonstrated a large inability to manage our economic affairs. Our obvious ineptitude has afflicted both major parties, a series of administrations, Congress and economists of every size, shape, and form.

We need a coherent, consistent Federal policy which permits small business to survive and prosper and all business to plan. That goal will not be achieved if this administration's complete tax and budget proposals are enacted.

Thank you.

Mr. MITCHELL. Thank you very much.

I am going to share with you the context of a tax bill that I introduced for the relief of small business which I think is far more equitable than the approach used by the administration. I frankly think the administration's approach is tilted toward the large corporations and will not be of significant benefit to small business, certainly on any short-term basis.

I don't have any questions. I do want to make one or two comments.

It seems to me that we need to do something about the economy, and something about Government spending; but as I have argued since the beginning of the year, it is a question of how we prioritize. I am in complete agreement with you on the foolish approach that has been used for the Small Business Administration. Those draconian cuts are, in my mind, unwarranted. We fought very hard against them, but they were imposed on us.

On the other hand, I think it is very foolish to cut Federal jobs training programs given the state of our economy right now when unemployment is so high, because to the extent and degree that we cut those programs, we simply increase the burden on the other side. We are not going to let people starve to death. We are going to pay people unemployment compensation, put them on AFDC. So this whole cutting process, it seems to me, in the Congress and by the administration was not thought through as carefully as it should have been, and we really did not establish priorities. I regret this has happened.

I think we are going to pay a price for this somewhere down the line.

My position consistently has been that maybe the supply side economics approach will work. I don't know that it will. We have no guarantees that it will. If that is true, then what we ought to do is reduce Government spending in tandem with the success of supply side economics.

My major concern is no matter whether the supply side economic approach works or does not work, even if it would, there is going to be a 2-year timelag before we feel any impact. And I think some of the cuts have been disastrous.

I will share the bill I have submitted, the tax bill for the relief of small business. I would like to get your comments on it.

I have no questions.

Congress Crockett, any questions?

Mr. **Crockett**. I appreciate very much, Mr. Gevirtz, your statement here. I find it quite interesting. But I wonder if you are not trying to carry water on both shoulders.

You basically agree with the administration's tax proposals, with the administration's budget cuts. But you make an exception with respect to small businessmen. Is that basically correct?

Mr. **Gevirtz**. That is basically correct.

Mr. **Crockett**. You also seem to labor under what I believe is an illusion that this administration is really bent on reducing Federal spending. I believe the current budget submitted by the administration calls for greater Federal outlay overall in spending than has been true of any of the previous Federal budgets. And that is primarily because we are taking money from the so-called social programs and giving it to the Defense Department. I notice in your statement you don't have one word of criticism about that mammouth transfer arrangement.

Mr. **Gevirtz**. The reason for that is, sir, that I believe it is my task today to focus on the small business community and the problems being created by the administration's programs therein.

Mr. **Crockett**. What do you think about increasing the Pentagon's proportion of the Federal budget from approximately 24 percent up to a contemplated approximately 32 or 33 percent?

Mr. **Gevirtz**. I don't consider myself an expert, Mr. Crockett, on the subject of defense spending. So I don't think it would be appropriate for me to comment on that.

Mr. **Crockett**. Very well. Thank you, Mr. Chairman.

Mr. **Mitchell**. Congressman Siljander, questions?

Mr. **Siljander**. No questions, Mr. Chairman.

Mr. **Mitchell**. Evidently your testimony achieved what you sought to achieve. We have minimum questions from the minority and majority side.

Thank you very much.

Mr. **Gevirtz**. Thank you, sir.

Mr. **Mitchell**. We will now hear from Mr. Vernon Williams. You may proceed, Mr. Williams.

## TESTIMONY OF VERNON WILLIAMS, PRESIDENT, WEST SIDE CHARTER

Mr. **Williams**. Thank you.

I would like to give you a brief history of West Side Charter, who I represent as president of this firm.

West Side started out as an idea with my father. We never have received any of these 8(a) deals. We kind of started out as a family business back in 1974. It has been a long, uphill struggle ever since then.

We started out mostly as a travel club. We advanced into the business sector through West Side Charter Service, who received a contract for commuter work for a governmental site in Las Vegas, known as the test site.

West Side—the name West Side came from west Las Vegas. It was given that name mainly to offset some of the hardship that might—we knew we were going to encounter in the business world.

We primarily dealt with transporting workers to and from the test site in Nevada. We did this for a period of about 7 years on our own backs, out of our pockets, and anybody else's pocket we can manage to get into. It came to pass that the Government was going to let a contract for this service that we had been providing on our own through the State, which we obtained the rights to do this. When it came out they were going to let the contract, West Side was notified that they would be a part of the negotiation procedures for this contract. As it turned out, one of the other, larger companies in Las Vegas, called LTR, was also on the contract with REECO for transportation of another sector of people that commute to and from the test site daily.

The problem that we ran into was that we had for 7 years provided this service to the test site, and when it came to the fact that the Government finally was going to issue a contract for this, West Side was kind of put to the side. We would be a part of it, but right away we knew we were not going to be a major part of this contract. So we were brought into negotiations. And we were told that there would be a sum—I think it was 26 buses they wanted to operate. We were told we would be allowed to operate three of those buses.

The problem we have had dealing with Government agencies, is when you are small, you're undercapitalized, and you don't have the expertise in all these areas to go out and bid on contracts of this nature. So we turned to a firm here in Las Vegas known as NEDCO, who assisted us in—I had this all down, and when I get up here speaking it doesn't come out right.

Mr. MITCHELL. You just take your time.

Mr. WILLIAMS. Yes; they are an economic development company in the Las Vegas area, which is primarily responsible for much of the success we have had in the bus transportation business.

I want to back up because I got ahead of myself a little bit. I want to go into a little bit more of the background of West Side Charter Service.

The contract that we got involved with NEDCO was with a shuttle contract with REECO. West Side—in this particular contract, we were put in a competitive bid for this contract. And I think—this is back in 1975, I think, when this took place—I think the companies involved were West Side Charter, LTR, and some out-of-State company. West Side had a competitive bid with one of the larger companies known as LTR. And the bids were pretty close. They were so close, in fact, that we were told to come back and resubmit another bid.

It is not coming out right.

Mr. MITCHELL. Could I ask you a couple of questions? What agency let the contract?

Mr. WILLIAMS. REECO let the contract.

Mr. **Mitchell**. Was it with an agency of Government or the private sector?

Mr. **Williams**. The contract is DOE—Department of Energy.

Mr. **Mitchell**. It was with the Department of Energy. That is the group that put the contract out for bid?

Mr. **Williams**. Right.

Mr. **Mitchell**. Now, prior to the time it was put out for bid, you had been providing this service?

Mr. **Williams**. Yes; we were providing the service through a charter issued to us by the State.

Mr. **Mitchell**. How many buses were you running at that time to take the people to the work site?

Mr. **Williams**. We were running three.

Mr. **Mitchell**. Then when DOE put this out for a competitive bid, they were talking about 26 transport vehicles?

Mr. **Williams**. Right. Yes, 26.

Mr. **Mitchell**. And in this, they limited you just to three, the capacity you had been operating under?

Mr. **Williams**. Right.

Mr. **Mitchell**. Did you have the capability to do more than three?

Mr. **Williams**. We had the capabilities, and showed and proved it to them. We had the backing for the equipment, and letters given to them in every respect. It is just one of the areas where when you are a minority company, how you are limited. People want to limit you to what they think you can do, and not what you feel your capabilities are.

Mr. **Mitchell**. Now, when you came in, your bid was awfully close to this other company, LTR?

Mr. **Williams**. Right.

Mr. **Mitchell**. And then you were told to go back and resubmit another bid; is that correct?

Mr. **Williams**. Right.

Mr. **Mitchell**. What was the final outcome of the bidding—even with help from NEDCO? Did you get a contract with DOE?

Mr. **Williams**. Yes; we received a contract.

Mr. **Mitchell**. To provide what kind of service.

Mr. **Williams**. Well, I kind of got it mixed up there. The one contract, the shell contract, in that contract the close bidding was—when the bids went in, and they found out we were only $6 off from the major contractor, under his price, and then the question of capabilities arose, there was a technical evaluation, and we proved and showed technically we could perform the contract.

So they went back in to REECO again for consideration. It was brought back to our attention that there were other problems, problems they never even told us about. We turned to the Federal Government in a sense where we wrote letters to everybody we knew or thought we knew in Washington, D.C. But this whole process took something like 4 months before we were finally awarded the contract.

Mr. **Mitchell**. All right. The terms of your contract—did it specify the number of transport vehicles you would have?

Mr. **Williams**. Yes; this particular contract was for two vehicles.

There were two different contracts. The one I am talking about now, the shuttle contract, was for two vehicles.

Mr. MITCHELL. Now, on the other contract what happened?

Mr. WILLIAMS. Which one—the craft one?

Mr. MITCHELL. The first contract that you referred to.

Mr. WILLIAMS. We received the bid for the first contract after 4 months of litigation back and forth with REECO. After receiving the contract, we performed the contract better than it had ever been performed by anybody. As a matter of fact, we have letters about the performance we gave them. And this contract ran for 2 to 3 years before the craft contract came up.

So what I am saying is that we already had a track record with REECO for shell service—when they decided to start transporting the craft to and from the test site.

Mr. MITCHELL. Are any of those contracts presently still in effect?

Mr. WILLIAMS. Yes, they are still in effect, both of them.

I guess what I am saying, Mr. Mitchell, is that we have never been an 8(a) participant. We have always had to go out on our own and actively engage in the open market. And I guess our real problem has been capitalization, as far as being able to go to the different institutions like SBA and get the necessary funds needed to operate contracts.

Mr. MITCHELL. Do you feel that had you been 8(a), had you been in the 8(a) process, that you might have fared better with these two contracts?

Mr. WILLIAMS. After listening to and conversing with some of the people that have 8(a) contracts, I can see some of the problems that they are having are similar to the ones we are having without 8(a) contracts.

Mr. MITCHELL. Then in your opinion, it would have made no difference, it would not have either helped nor hindered you in these two contracts, had you been 8(a) certified.

Mr. WILLIAMS. I think it would have made a difference, in that if we had been 8(a), I think those contracts are negotiated rather than bid on. But we have actively bid on all the contracts we have received. The real problem we have had is capital. As you know, when you do contract work, it is a reimbursement system, where you perform the work and you are reimbursed after you invoice for the particular jobs. I think if there was some kind of way that this administration could come up with ways for better capitalization of small businesses—in my opinion, not ever having had an 8(a) contract or been an 8(a) participant, I feel we definitely can make it out there on our own, if we can get the necessary capital that is needed to operate a business.

I might say that West Side by no means now is a small company. We operate 21 buses, 8 minibuses, and some 10 baggage trucks. We have a weekly payroll of $18,000 or $20,000. This year our gross revenue will be $2.3 million.

Mr. MITCHELL. How many employees do you have permanent?

Mr. WILLIAMS. We have about 60 employees. But our problem is capital. I think we, as people working in small businesses, are very capable of competing in the private sector as long as we have ways and channels, of not being pushed aside due to undercapitalization, and having no means of getting it.

The thing we are speaking about, the SBA cutting back to 70 percent on the guaranteed loans. We had an SBA loan. But the SBA loan we got, they gave us $50,000 to buy two buses. The buses cost $48,000, so we start out in the hole. But we were able to pull out of that, due to our determination and our willingness to be in business and operate as black minorities in business. This is the only way we have been able to survive. If there were some way that black businesses could be capitalized in the proper manner, they could make it. We are making it now, being undercapitalized. Look what we could do if we had the revenues to work with.

Mr. MITCHELL. I understand.

Congressman Crockett?

Mr. CROCKETT. No questions, Mr. Chairman.

Mr. MITCHELL. Congressman Siljander?

Mr. SILJANDER. No questions.

Mr. MITCHELL. Thank you very much.

You really have two problems. The first problem in my experience has been the consistent undercapitalization done by the Small Business Administration. That has changed somewhat. In a starting business they were almost inevitably undercapitalized. The other part of the problem is the private lending institutions.

You have a good business going there. Do you have a good line of credit with a bank now?

Mr. WILLIAMS. Let me put it this way. We didn't get where we were having money all the time. So we have always had to rob Peter to pay Paul. Now if the bank will let me start in, say, 1979 and nothing back further, I have good paper to show them. But when you have to go to a lending institution, they want you to go back 2 or 3 years.

Mr. MITCHELL. Then you do not have a good line of credit with a lending institution?

Mr. WILLIAMS. Right.

Mr. MITCHELL. Despite the fact that your business is successful in your opinion?

Mr. WILLIAMS. Right. Yes.

Mr. MITCHELL. Thank you very much for your testimony.

It is near 12:15 now. Why don't we take a break and resume our hearings at 1:25. We will start off with Ms. Allen as our leadoff witness.

[Whereupon, at 12:10 p.m., the committee was recessed, to reconvene at 1:25 p.m., this same day.]

## AFTERNOON SESSION

Mr. MITCHELL. The committee will be in order.

Ms. Allen? We have a complete copy of your prepared statement. You have two options. One, you can present your entire statement, read it all, or you can submit it for the record and merely speak to the major points you want to make.

## TESTIMONY OF LaVERDA O. ALLEN, MANAGING PARTNER, HOMITZ, ALLEN & ASSOCIATES, OAKLAND, CALIF.

Ms. **Allen**. I would rather use your second option. I will put it in the record and speak to the points.

Mr. **Mitchell**. Without objection, your entire statement is submitted for the record.

Ms. **Allen**. Thank you.

First of all, let me apologize for being late. I was talking to SBA this morning. That is why I was late.

I am LaVerda Allen, managing partner of Homitz, Allen & Associates. Our firm is a small minority firm. We specialize in training, research, and program development. We have been in business approximately 10 years. Our main office is located in Oakland, Calif. We also have an office in Los Angeles, as well as an office in Detroit, Mich.

We have had some successes with certain agencies as a small minority business, primarily the Department of Transportation, the Environmental Protection Agency, and the Department of Labor.

One of the major problems I see California firms having is the fact we are located on the west coast. When you are a professional services firm such as ours, most of our work is really with the Federal Government agencies. The fact that we are on the west coast has certainly hampered, I think, our ability to grow.

First of all, we have not been able to spend the kind of time and energies that are necessary to be in Washington constantly to market in the manner in which we are generally told that one should market.

We have been most fortunate to have the Small Business Administration and the 8(a) program representative to serve as advocates, and I think they have served as a good advocate for all west coast companies, and certainly have opened up some opportunities for us.

We have been very pleased with our experience with the 8(a) program in that we have not only had an advocate, but we have also had a kind of system through the 8(a) program that limited the competition on procurements, so that we would in fact be competing with firms that were similar in size and nature and in experience.

Therefore, I think that they have been a great benefit to our ability to grow as much as we have been able to grow.

However, there are some things that I would like to see your committee push for. One would be reducing the size of what is now considered the size limit for small business firms.

At the professional services level, many times small business firms may be those with 250 employees, or those that have combined $3 million worth of work over the last 3 years.

We cannot as a firm with 16 to 25 employees compete very successful with firms who are so much larger than we are. Certainly they have more resources to devote to marketing, to devote to proposal preparation, to devote to graphics presentation, and even in terms of the kind of equipment that they may have available.

I would also urge you to take a look at the selection process that is used for the selection of professional firms for contract opportunities. Here in California, for about the last 4 years, I have had a contract with the Environmental Protection Agency to assist minority firms in improving their participation in the construction grants program.

One of the things that we have been able to get grantees to do—and I certainly think that some Federal procurement agencies could use this as part of their selection and procurement process—is to take into consideration not only experience, but the potential of the firm to be able to do the kind of work that would be required under a given type of selection.

I would like briefly to describe the selection criteria we have been able to get grantees to use as described in my testimony that I have presented to you. The regular selection criteria of the agencies has been refined to reflect a decrease in preferential order as follows: The first preference on projects might very well go to small and minority firms, or joint ventures between small and minority firms; the second might be a joint venture between a small firm and a large firm, or a minority firm and a large firm; the third opportunity for selection would be large firms that used all minority or small businesses as subcontractors, and your least opportunity for being selected would be that you would be a large firm.

We have found that to be a very effective way of seeing to it that minority firms participate and participate to their maximum possibility; in other words, give us a chance to develop a track record, give us an opportunity to be able to show that we have the potential.

Now, this morning I heard somebody say it may cost more for you to do business with a minority firm. I don't think it costs anybody more to do business with me. I know I am good, and I do a good job. I need a different type of selection criterion to insure that I am going to get a chance to do the job.

That is about all I think I have to say.

[Ms. Allen's prepared statement follows:]

### PREPARED STATEMENT OF LAVERDA O. ALLEN, MANAGING PARTNER, HOMITZ, ALLEN & ASSOCIATES, OAKLAND, CALIF.

I am LaVerda O. Allen, Managing Partner of Homitz, Allen and Associates. The firm of Homitz, Allen and Associates is a small minority business consulting firm specializing in training, research and program development. We have had repeated business experience with the Department of Transportation, Department of Labor and the Environmental Protection Agency. Our overall experience with these agencies has been favorable. Homitz, Allen and Associates has been fortunate in that the program officers were knowledgeable in their field and were aware of the technical requirements of the specific projects for which we were selected. The staff in the above agencies have selected technical areas that allow an opportunity to develop new areas of expertise. The contracting officers were sensitive to the need for immediate processing payment of invoices, and the ultimate effect of delays on a small business. For instance, we have had invoices processed by EPA within 20 days.

I will speak briefly to the problems encountered as a small business and those associated with being a small minority firm.

The time it takes to finalize a contract after selection has been our major problem. In some instances, it has taken six (6) months to finalize a contract after being selected. The delay creates major problems for small firms in that staff is identified for a particular project; cash flow projections are based on an early decision; and, inflation consumes the limited profit. It is impossible, with our limited financial resources, to bring staff aboard without a "billable" source. In other instances, the contract negotiators are not knowledgeable about the technical requirements and will attempt to negotiate not only the cost but also the scope of work.

The 8(a) Program, in our opinion, has a stigma that research and development firms are only capable of undertaking projects under $100,000. Our concern is that the dollar ceiling appears to have no relation to the complexity of the scope of work. Thus, the dollar value inhibits a firm's ability to be competitive in its search of personnel. Sometimes we get top quality staff, not because of salary and benefits, but rather because we are a small, minority firm and have a variety of projects and are not encumbered with bureaucratic procedures. Since the majority of our contracts have been under the 8(a) Program, some of the problems may seem peculiar to that system. However, I am of the opinion that some of the problems are inherent in the fact that we are a small business located on the West Coast.

The proposed 8(a) Program requirements will hinder our ability to remain a viable small business. The 8(a) Program provides an opportunity for us to begin developing the required track record with the agency; a convenient vehicle for the approval and award of unsolicited proposals and serves as an advocate for West Coast firms.

Probably, the greatest disadvantage for our firm is the fact that we are located on the West Coast. Consequently, we cannot afford the expense rquired to market in Washington, D.C. For instance, we cannot afford the time, airfare, lodging, make a commitment for a follow-up appointment in three weeks and six months later discover that we were concentrating on the wrong person, or, convince the 8(a) representative that we are still in business. Generally, program officers appear to prefer local presence, i.e., office in the Metropolitan Washington area including project director and support personnel. This expense is prohibited without a contract in hand. I am also of the opinion that, with the sophisticated communication equipment and frequency of air transportation, this criteria should be eliminated. Under the present system, West Coast firms in competition with East Coast firms are at a disadvantage. Our selection is viewed as increasing the cost, and not being readily accessible to the program officer. Even the speed with which mail is dispatched between Washington, D.C. and the West Coast is an impediment.

The current size and dollar guidelines for small business, in my opinion, are most unrealistic. I ask you, how can a firm of 16 people, including clerical staff, compete with a firm of 250 or more employees. We do not have comparable resources to devote to marketing, proposal development, graphic presentation, office space or equipment. There should be a complete revision of the guidelines for the requirements of a small business.

Small business guidelines should be developed that allow small firms of less than 25 employees a greater opportunity to be successful for smaller contracts. For instance, procurement opportunities under $200,000 should be set-aside for firms of this size.

The selection criteria for small business should emphasize capability which gives an edge to potential rather than past performance. Some built-in mechanism in the selection criteria is required to provide an opportunity for growth and expansion. The selection criteria should be further refined to reflect a decreasing preferential order as follows:

1. Small and/or minority businesses or Joint Ventures between small and/or minority business.
2. Joint ventures between large and/or minority businesses.
3. Large firms with all small and/or minority firms as subcontractors.
4. Large firms.

I have had tremendous obstacles to overcome in surviving as a small minority owned business. I have not had the time to analyze possible effects of being a woman-owned business. It appears not that the assistance available to small minority-owned firms will be eliminated. Just at a time when we have been successful in developing a limited track record with several agencies who enjoy doing business with us as an 8(a) firm, the Small Business Administration now proposes a maximum of three years in the 8(a) Program. This is not sufficient time for us, when you consider that it took 10 years to get three small sections within two departments and one agency to recognize our capabilities and expertise. We have from time to time developed long range strategies and plans for expanding our capabilities, but unfortunately, they have been only 'plans' because we could not meet the test of a proven track record.

Finally, the efforts a firm is making to expand and grow, and the quality of the end product, should be the major factor in determining the length of time a firm may continue in the 8(a) Program.

Mr. MITCHELL. Thank you for your testimony.

You have said something that is very controversial. You recommended reducing the size of the small business. Is that correct?

Ms. ALLEN. Yes.

Mr. MITCHELL. Of course that would fly right in the face of the criticisms of the minority manufacturers, for example, who say you shouldn't be imposing a size standard on us because at our level we cannot compete, that if you reduce the size standard for us, we are just in inordinate difficulty.

Ms. ALLEN. I think there are different categories of businesses. I am talking about professional services businesses. As an example, I work a great deal with minority architects and engineers.

Based on the small business standards now, do you realize that about 95 percent of the architectural and engineering firms in this country are considered small business? So that I think there have to be some different standards for different sized or different types of services that one may be offering.

For professional services, I certainly think the size limit is far too big now. In fact, I would even go so far as to say that I would think that all professional services contracts of $200,000 and under ought to be set-asides for minority and small businesses.

Mr. MITCHELL. $200,000?

Ms. ALLEN. I would say $200,000. Right now it appears that for professional services firms, $100,000 is about the ceiling for 8(a) procurements. Most of the time if we get a contract that is more than $100,000, that was an 8(a) set-aside, it has taken us 6 months to convince the program officer that $100,000 just won't do the work that the agency is asking for.

Mr. MITCHELL. What is the top range for contracts in this line of work? Is there such a thing as a $1 million contract?

Ms. ALLEN. Oh, yes. $1 million, did you say, or $1 billion?

Mr. MITCHELL. $1 million.

Ms. ALLEN. Oh, yes, there are some million dollar contracts. I would say not as many now as there used to be. I think we will see more of them now that the administration has switched its budget from social programs to the Defense Department because they don't do anything cheap in the Department of Defense.

Mr. Crockett took part of my speech, so I don't want to repeat it but—we all know that every President comes in talking about reducing spending.

What really happens is that every President has his own priority where spending is going to go. The Government certainly under the Reagan administration will still be buying services from private firms such as mine, very little from mine and a lot from big firms.

We know that in the Department of Defense, those contracts are going to be mammoth, and they are going to be buying services, professional services.

Mr. MITCHELL. You are getting right to the point of my hesitancy on your $200,000 recommendation. If you set that as a ceiling and set-aside just at that level, isn't it a little bit unfair to minorities if they cannot have a set-aside for $300,000 or $500,000.

Ms. ALLEN. Right now they say they can't have a set-aside at all. I have no problems with making it more.

Mr. MITCHELL. Who says that?

Ms. **Allen**. I just say when I talk to them they don't have a set-aside for professional services. I want to make clear I am talking about professional services type contracts. I am not talking about manufacturing. I am not familiar with manufacturing.

I would say that $200,000 would not be a fair level for construction. I am familiar with construction. So I am talking strictly about professional services. I will admit to you today that even that is low, but I am just trying to get us to move a little bit, if we can.

Mr. **Mitchell**. In your testimony you indicated that you are disadvantaged because you are located on the west coast.

Ms. **Allen**. Yes; even the mail hurts us.

Mr. **Mitchell**. Theoretically, the regional offices and the district offices were set up to offset the problem of your being so far removed from the Nation's capital.

Ms. **Allen**. Which regional offices?

Mr. **Mitchell**. When we talk about a regional office of SBA, for example, or a district office of SBA. A regional office for the Department of Transportation. I don't know that they have district offices. The point I am trying to make is if that is their reason for being there, and you are saying you are still disadvantaged even though they are in place——

Ms. **Allen**. Because most of the procurement takes place out of Washington for those agencies. Not SBA. SBA doesn't do that much direct procurement itself. But most of the procurement opportunities for the Department of Transportation, Department of Labor, and all of those places, come out of Washington, D.C., and very little out of the regional offices.

Mr. **Mitchell**. Are not the regional offices notified about all procurement?

Ms. **Allen**. I have not found that to be the case in my 10 years. I cannot say they are not notified. I am saying I have not found the regional offices to be of assistance in identifying procurement opportunities with their agency.

Mr. **Mitchell**. You have been in business 10 years?

Ms. **Allen**. Yes.

Mr. **Mitchell**. What, if any, percentage of your business is in the private sector?

Ms. **Allen**. Very little. I would say probably 3 to 5 percent. When I say private sector, it is not private sector, really. It is with local governmental agencies.

As an example, I have a contract with Detroit Water and Sewage Department, on which I am a subcontractor to another contractor. That wouldn't be nongovernmental.

My experience with the private sector, I think, is that unless the Federal Government takes a very strong and far more vigorous enforcement posture than what we currently have in Public Law 95-507, it will take another 25 years before we can really crack the private sector.

Mr. **Mitchell**. Your opportunities have been limited in the private sector. Is that because they do their own research and program development for the most part?

Ms. **Allen**. No. I just read an article the other day that said Arthur D. Little did business with 400 of the Fortune 500 firms, and they certainly are private. So, no. It is that we have a very difficult time in private industry to find out really what services they are going to buy, or what they are interested in buying.

They, like the Federal Government agencies—sometimes waste so much of our time that we cannot stay in business long enough to figure out who we should be talking to.

Mr. MITCHELL. Congressman Crockett?

Mr. CROCKETT. I am sorry I wasn't here, Ms. Allen, to hear all of your testimony, but what you said I found to be very interesting.

I take it you have been in business about as long as the Small Business Administration has been in business.

Ms. ALLEN. I was in business before that, sir.

Mr. CROCKETT. I see. Tell me——

Ms. ALLEN. Not in this business.

Mr. CROCKETT. We have been speaking about viable business institutions. Do you think the Small Business Administration is viable?

Ms. ALLEN. I think that it is just now getting to the place it could be viable. I think just at a time that they are beginning to look at what kinds of things they can do, we see them being cut back. I think we have to have the Small Business Administration.

Mr. CROCKETT. There are those who say that the Congress has promised too much in the Small Business Act and has never during the period that the Small Business Administration has been in existence come up with sufficient appropriations to carry out the promises in that act.

Would you agree?

Ms. ALLEN. I would agree totally with that, but that has been the history of this country.

Mr. CROCKETT. There is a move afoot now, and I think it is sponsored by the administration, to eliminate the Small Business Administration as an independent agency and transfer it to the Commerce Department. Do you think that is good or bad?

Ms. ALLEN. I think it should remain as an independent agency and not get caught up in the historical bureaucratic redtape that the Department of Commerce would bring with it.

Mr. CROCKETT. Do you think down through the years the Small Business Administration has really been discriminatory as far as minority groups are concerned, particularly black groups?

Ms. ALLEN. No; I would say on the west coast I have not seen that to be the case.

Mr. CROCKETT. I get the impression, then, that the west coast is a notable exception because every other place where I have made that inquiry the answer has been certainly it definitely has been.

I met with the small business—not small business, but minority group business representatives in my district in Detroit, and to a man that was their position. It is usually indicated by a sort of a runaround as far as the application is concerned—this has to be produced, that has to be produced, the cost of even making the application is run up tremendously. Then you never get above some underling who apparently feels that he is justified in making a final decision.

You don't have those experiences out here, I take it?

Ms. ALLEN. I have not had those experiences, nor have the firms I work with. I would say for about the last 8 years I have had at least one project in my office that was to provide assistance to minority firms.

I would say that the complaints that you have just enumerated that you have heard, I have heard them from all races and all types of businesses. I would not say that that would be a blanket argument against SBA, in my opinion, and in my experience with working with a multiethnic group of small businesses.

Mr. CROCKETT. I am glad to hear that.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you, and thank you very much for being patient with us and staying here for the afternoon session.

Ms. ALLEN. Thank you for giving me the opportunity.

Mr. MITCHELL. We will now take the first panel of the afternoon session.

I would ask if there is enough room that all of the witnesses come up at the same time. We are now dealing with the agencies.

I would like to hear from Mr. Rivera, who is the Director of the Minority Business Development Agency; Mr. Robert Strauss, Acting Regional Director, Small Business Administration in San Francisco; Mr. Rudolph Estrada, District Director for the Small Business Administration in Los Angeles; and Mr. Al Juarez, acting director to Mayor Bradley's Office of Small and Disadvantaged Businesses.

First we will take Mr. Rivera and Mr. Strauss.

Mr. Rivera, it is good to see you again.

## TESTIMONY OF VICTOR M. RIVERA, DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY, DEPARTMENT OF COMMERCE, WASHINGTON, D.C.

Mr. RIVERA. I appreciate the opportunity to be here, Mr. Chairman. With your permission, I would like to submit my statement for the record and provide some highlights of MBDA's activities.

Mr. MITCHELL. Let's do that with some reservation. I don't think we received your statement until this morning.

Mr. RIVERA. We had that prepared last week, sir.

Mr. MITCHELL. OK, fine, then I have no problem. Your entire statement is submitted for the record.

Mr. RIVERA. I would like to present an overview of MBDA's activities, both present and planned, on behalf of minority business development, both nationally and here in California. The Agency's mission as established in Executive Order No. 11625 calls for four primary activities.

First, we are charged with coordinating all Federal programs and activities related to minority enterprise. We do that by working very closely with the Inter-Agency Council for Minority Enterprise at the national level, and the minority business opportunity committees at the local level.

Last year, in 1980, IAD's member agencies reported total Federal activities on behalf of minority enterprise—including loans, guarantees, procurements, both direct and indirect, and subcontracts—of over $5.8 billion. This figure represents a $1.5 billion increase over 1979, and a $2.5 billion increase over 1978.

I concur with your statement earlier, Mr. Chairman. Had it not been for Public Law 95-507, I doubt very much that we would have seen such a dramatic increase in Government purchases and services on behalf of minority enterprise.

Our second mission makes us responsible for stimulating public and private sector initiatives on behalf of minority enterprise. We work very closely with State and local governments to achieve this goal. I should mention that although Federal procurement exceeds $100 billion, the State and local government market exceeds $2.10 billion. This is a market we would like to see more minorities penetrate. We are working very closely with State and local governments to see that come about.

We also work in the private sector with the National Minority Supplier Development Council. They report purchases to corporate America, the over 1,000 major corporations who purchase from minority businesses. In 1980 the council reported purchases of over $3.7 billion. This is a $600 million increase over the previous year.

Again, we would like to think that Public Law 95-507 had something to do with this increase.

Third, our mission statement calls for the collection and dissemination of information useful to the establishment of minority businesses. We operate a clearinghouse, a network for the dissemination of information to our delivery system.

The fourth and the principal activity of our agency is funding public and private organizations to provide management and technical assistance to minority business enterprises. We also fund innovative pilot and demonstration projects to overcome special problems of minority enterprises.

We have operations now in 19 cities. At various times in the past they have been called business development organizations or business development centers. They are presently called general business services offices.

Recently we have modified our scope of work and focused upon improving the level and the sophistication of assistance we provide. Our primary activity is to assist clients in developing business plans and in reaching their financial and marketing goals.

In fiscal year 1980 we assisted 15,290 minority firms. I should say parenthetically that very often people are unaware that MBDA is providing these services. They say, "ICBO is helping me," or "NEDA is helping the Urban Coalition." They fail to realize very often that these organizations are funded by MBDA to provide those services.

MBDA's constituency is comprised of approximately 600,000 minority firms throughout the country. However, I like to view our constituency in a broader context. There are in excess of 46 million minority persons in this country. I view our constituency in a broader context because I think we have a responsibility to our children and our children's children to become entrepreneurs, to develop a climate conducive to entrepreneurial development. We have to begin in colleges and high schools and wherever.

We are employing three strategies to bring this about. We will soon begin to evaluate our managers and, in some cases, our grantees on their ability to do three things—leverage, broker, and advocate.

By leverage, I mean the ability to allocate our limited resources—we have a budget of a little less than $60 million—in a way best calculated to improve the climate for minority entrepreneurs. As I mentioned before, we need public and private sector contributions, dollars and/or in-kind services to succeed.

In the past we have not assessed how well we allocated the funds and services to which we had access, even though we have directly and indirectly received leverage money from other organizations. We are going to begin to measure our leveraging abilities and also evaluate our managers and grantees on their abilities in this area.

Brokering is another important strategy which we view with a new emphasis. We need to begin to measure where MBDA and where our grantees have actually made a difference. Where have we created opportunities, where have we matched an opportunity from a Government program with a minority firm and created something that otherwise would not have come about?

We are now beginning to require all of our grantees to compile success stories of businesses that have grown as a result of our services. We need to publicize those. Too often when we read about minority enterprises or businesses in the newspapers the news tends to be negative.

We're sure that our agency and our grantees are doing a lot of good things. A lot of minority firms are expanding rapidly, doing good things in their communities, but they are not disseminating this information properly.

The third important strategy on which we have been placing more emphasis is advocacy. As you know, I spent the last 3 years at the Office of Chief Counsel for Advocacy at the SBA. I think we should be engaged in many similar activities as advocates on behalf of minority enterprise.

The Department of Commerce acts as an advocate for big business, or business in general. The SBA acts as an advocate for small businesses. However, the problems and the needs of small businesses are not always the same as the problems and the needs of big business. And on some occasions the problems and the needs of minority business are not the same as those of small business. We need to differentiate those problems and needs and, wherever possible, begin to change the attitude of policymakers in government, both at the Federal and the local levels, and in the executive and legislative branches.

We are beginning now to see some new and expanded initiatives. Before we mention these let me mention one of the things that was not properly emphasized this morning. We at MBDA view our responsibilities on two levels based upon the two sets of problems confronting minority business today. The first level of problems is what I call the aggregate type problem. Today we have not heard anything said about the low formation rate of minority businesses. The participation rate of minorities in business is one-sixth that of nonminorities, based upon percentage of population.

We didn't hear anything today about the low growth rate of minority firms. Eighty-three percent of minority businesses in this country have no employees.

We didn't hear anything today about the high failure rate of minority businesses; over 80 percent of minority businesses do not last 10 years—80 percent is a very high figure.

We know as a result of our studies what the underlying causes of these problems are. My concern is that we have not formulated through a national policy program that will address the causes of those problems.

On the second level, we have another set of problems on a micro basis. If you were to survey successful minority firms, especially those with employees, and ask them what their problems are, they will tell you inflation. The cost of doing business today is horrendous and the cost of capital is horrendous, if you can get it at all.

The burden of Government-imposed regulations and paperwork inhibits entry of minority business into many industries and presents a serious problem. A heavy tax burden is placed upon many minority businesses, especially those that are growing. These include income taxes, social security taxes, city taxes, license fees, et cetera. These are very serious problems. We need to ask ourselves whether we are developing the types of programs in Washington that will address the root causes of these problems.

We have three major priority objectives I would like to outline for you. We are presently reviewing all MBDA and other Government programs to see how effective and responsive they are to the needs of our constituency.

There are a lot of paper programs in Washington. There is a lot of legislation that is not being enforced. We are all familiar with that. MBDA intends to take a very hard look at that.

We are also taking a very hard look at the ways in which we can increase private sector participation in minority business enterprise. As Mr. Washington asked earlier today—and he had some ideas we are going to look at—what are the incentives, what are the disincentives that need to be removed so we can increase private sector participation in minority business development?

Our third objective is to work toward providing the type of assistance that will make minorities more competitive and less dependent on Government assistance in the long run.

This, to me, is very critical. You can use the minority label for a certain amount of time to gain access to assistance. But some day, sooner or later, that person is going to have to compete in the marketplace with others.

Unless we begin to prepare minorities to do that, we are not really accomplishing very much, other than raising expectations and also raising the frustration level later on.

What are we doing to assist minorities entering the open marketplace? Well, there are several programs. We have a portfolio managing program. One of the things that distinguishes us from the SBA is the word small. As a result of legislative and other constraints, SBA is not permitted to assist technically large businesses, or businesses other than small. We do not have that constraint. We hope to take advantage of that.

We have already identified the 100 largest black firms in this country through Black Enterprise Magazine, the 100 largest Hispanic firms, and the largest Indian and Asian firms.

We plan to create a portfolio of those firms to see how we can, by providing intensive counseling, planning, and other kinds of assistance, create—and I believe these things can be programed—large minority firms. I'd love to see some national minority companies with economic clout. We are going to try to do that. If we cannot do it with the largest 100 firms in each category, we are not ever going to be able to do it.

A lot of these firms—not all of them—would be eligible for financing. Some of them are large because they have been lucky. However, we are seeking to identify the true entrepreneurs, and work with them, give them whatever it takes in the form of the best possible professional assistance so that they will grow and become large.

I would love, within the next 2 or 3 years if possible, to see some minority firms in the top Fortune 1,000, if not the top 500. I am confident it can happen. If we commit ourselves to this goal, it will.

We are working very closely with trade organizations. Wherever I go—as you know, I have been on the job a little less than 3 months, and I must have traveled to 10 or 12 cities—I meet with minority business organizations. I encourage them to organize and to grow. We hope to provide them with information so that they in turn can begin to advocate, or do a better job of advocating on behalf of their constituents.

We also have an acquisition program, a very important program. It is intended to help minority firms acquire other businesses in spinoff situations, and to acquire large nonminority firms.

In the past, as you know, the trend has been for corporate America to buy up or buy out smaller, smaller entrepreneurial firms. We would like to reverse this trend and have some minority entrepreneurs do the buying out, once they become aware of divestitures or spinoff situations. We plan to assist them, providing very sound professional help, in acquiring larger businesses.

The success of this program is very important to me because small size, as you know, is one of the reasons for the high failure rate of minority businesses, as is the location of the business. Large businesses can afford to make mistakes. Minority and other small businesses cannot. The importance of economies of scale cannot be underestimated. We want to see minority firms use economies of scale to their advantage.

Our technology commercialization program personnel are working very closely with other elements within the Department of Commerce. This program will identify growth industries and assist in the transfer of technology to make minorities more competitive in the marketplace, by providing them with information about the existence of equipment and processes which will make them better able to compete in the open market. We now have eight technology commercialization centers around the country.

I worked for the SBA 8 years. I was a district director, I was a regional director, and I am very much committed to the 8(a) program. I think it is an invaluable tool for developing and assisting minority firms. Yes, it has been mismanaged. However, its problems can be corrected.

One of the problems I mentioned earlier was size. We are working very closely with the SBA Administrator and his staff in adopting or picking up a lot of these 8(a) firms who want to join a special portfolio we are developing. These firms will receive intensive marketing and financial assistance. As of April of this year, 783 of the approximately 2,300 8(a) certified companies were MBDA clients.

We hope to expand that number to include, eventually, all 8(a) certified firms, if they want to become MBDA clients. We are beginning to initiate that program now.

Our export program is another program which has some potential for minorities. We are working very closely with the Department's International Trade Administration—ITA—in implementing the program.

Our last special initiative is the enterprise zone concept. Secretary Baldrige has expressed an interest in the concept. We have brought together a task force that is looking very carefully at several pieces of legislation dealing with enterprise zones to see how we can maximize minority participation and involvement in this concept. I see very little, if any, reference to minority businesses in the legislation from the bills I have read. We want to make sure that minority participation is considered. We want to provide some alternatives, some options, at the State, local, and Federal level, to help bring that about.

Let me wind up by saying in California, which is our largest region, we have 30,500 minority businesses with paid employees. Last year, 2,200 of them were assisted by MBDA. That is a little over 7 percent. This region also has 15 business development centers; 10 of them are in California, two of them are here in the Los Angeles area. Each of the two expect to serve over 500 clients with intensive assistance; that is, business plan development and follow-up in achieving the objectives set up in the business plan.

We also have a technology commercialization program here in Long Beach, a very active Native American program, and three small agribusiness projects. We are active with the Regional Purchasing Council. This has been a very successful council. As a matter of fact, in 1975 their estimates of purchases from minorities was $35 million. In 1980, they reported $303 million, almost a tenfold increase.

We are involved in trying to maximize or increase minority participation in the architectural and engineering design work on the MX missile project, working very closely with minority engineering organizations. We are also working very closely with the State of California. We have funded programs in the cities of Los Angeles, San Diego and Oakland, designed to promote greater opportunities for minority enterprise.

Mr. Chairman, that concludes my statement. I would be happy to entertain any questions you gentlemen have.

[Mr. Rivera's prepared statement follows:]

### PREPARED STATEMENT OF VICTOR M. RIVERA, DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY, DEPARTMENT OF COMMERCE, WASHINGTON, D.C.

Mr. Chairman and Members of the Committee: Thank you for this opportunity to speak on behalf of the Minority Business Development Agency (MBDA).

The Department of Commerce, as directed by Executive Order 11625 of October 1971, is charged with providing Federal leadership in the development of the Nation's 600,000 minority businesses. The Minority Business Development Agency, formerly the Office of Minority business Enterprise, provides the leadership and program direction for minority business activities within the Department of Commerce and serves as the focal point of the Federal minority business development effort. In the twelve years of its existence MBDA has developed and implemented policies and programs to assist minority business firms to participate in the benefits of the American economic system. MBDA is now in the process of redefining its goals and sharpening its mission in order to become a more effective vehicle in merging the minority business community into the national economic mainstream. MBDA is committed to improving its ability to provide varied types of assistance. This assistance reaches the over one-half million minority business enterprises in the United States and, even more importantly, the 46 million minority persons who form the pool of potential minority entrepreneurs.

Our developing mission has the full support of the President and Secretary of Commerce Malcolm Baldrige. Recently Secretary Baldrige reiterated his support for minority business enterprise and outlined several specific initiatives he plans in the near future. Among those are his intention to personally chair the forthcoming meetings of the Interagency Council for Minority Business Enterprise (IAC) and the Advisory Council on Minority Business Enterprise. Secretary Baldrige plans to announce a national teleconference with minority business entrepreneurs to discuss many minority business issues.

MBDA is working to better define the role which the agency should play in the 1980's. In our reassessment of the agency's mission we have separated our mission into four distinct, yet interrelated, purposes.

*Coordination of minority business enterprise efforts*

The first mission is a coordination of Federal efforts in support of minority business enterprises throughout the public sector. Congress and the executive branch have initiated support programs for all facets of minority business at all levels of the Federal establishment. These programs are numerous and have resulted in a flow of $5.8 billion in procurement, grants, business loans and guarantees for minority business development during fiscal year 1980. This figure represents an increase of $1.5 billion over fiscal year 1979.[1]

Many of the Federal programs that assist MBEs have been subjected to criticism, some of it justified. I am convinced that much of the waste and excess associated with these programs could be eliminated through effective management and coordination. For example, MBDA is jointly working with the Small Business Administration to coordinate our efforts to assist the MBEs targeted for graduation from the 8 (a) program. As you are aware, SBA has been criticized for its mismanagement of this program.

Two bills, H.R. 3328 and H.R. 3330, have recently been introduced which propose the elimination of certain of these programs. H.R. 3328 proposes to dismantle the 8 (a) program. H.R. 3330 would eliminate the pilot procurement program established under Public Law 95-507 which provides for targeting of U.S. Army contracts to minority owned firms. MBDA is opposed to the enactment of both these bills.

MBDA is working with the Small Business Adminstration to develop a transition program for these 8(a) firms. Indeed, within the Commerce Department, we will be looking toward reducing duplication wherever possible. This will be done through closer coordination and sharing of information. MBDA is committed to increasing the effectiveness of the Federal assistance dollar and to providing better coordinated services to MBEs.

*Promotion of local, State, and Federal initiatives for MBEs*

MBDA is dedicated to providing leadership for minority business development at all levels. We will continue to make critical evaluations of public and private sector programs and policies and comment upon their effectiveness or deficiencies by offering alternative solutions and approaches.

*Information clearinghouse for minority business development*

A significant hinderance over the years in assessing the development of the minority business community has been the lack of a reliable, complete data base. This is needed to provide a statistical basis for projections and planning. Furthermore, minority business has no single entity, privately or publicly funded, to disseminate reliable information about MBEs in all industry codes, sizes and geographic regions.

MBDA is committed to filling this gap. An appropriate amount of our resources will be devoted to developing a useful data base. This information will be made available to private and public entities in the most usable form.

*Grant funding and other financial assistance*

A continuing mission for MBDA is the efficient administration of the program of general business services provided to MBEs. MBDA is carefully evaluating the competitive grant award process implemented in 1980. the Agency will make necessary modifications to improve its services to MBEs. Also, MBDA's funding services is more equitably targeted to areas. It is now based on their comparative minority business populations.

---

[1] Source—Federal agency performance for minority business develpment fiscal year 1980—prepared by U.S. Department of Commerce-MBDA, Office of Research and Information.

The agency is coordinating efforts in the Federal, private, State, and local sectors. MBDA grants are providing support for minority bank development, assistance to trade groups and associations. MBDA is helping minority entrepreneurs to build and strengthen institutions necessary for maintaining and developing their businesses.

MBDA will help serve as a connector of ideas. It will coordinate ideas in the Department of Commerce, other Federal departments and agencies, and among individuals and organizations which can facilitate the growth and development of minority business enterprises. For example, the International Trade Administration is a resource within the Department of Commerce with which MBDA puts minority entrepreneurs in contact.

MBDA is undertaking an in-depth examination of problems which confront minority businesses. Among the principal areas of concern are: the concentration of minority owned businesses in areas of retail and selected services; minority business enterprises expansion into growth industries; debt capital for financing operations; availability of capital for MBEs; and the entrepreneur's knowledge about business operations, markets and management techniques.

MBDA's Market and Resource Development Office is responsible for providing a market development and promotional program on behalf of minority businesses. That office provides staff support for and augments the activities of the Interagency Advisory Council (IAC). The Interagency Council is comprised of twenty-five Federal departments and major agencies and acts as a vehicle for coordinating the plans, programs, and operations of the Federal Government. As previously mentioned, Secretary Baldrige plans to chair the first meeting of the Interagency Council during this administration.

The principal way in which the Interagency Council has promoted minority business within the Federal Government has been through procurement. In 1969, approximately $13 million or .03 percent of Federal procurement dollars went to minority business enterprises. In 1975 this amount was increased to $808 million or 1.4 percent. By 1980, $3.1 billion or 3.2 of Federal procurement dollars was awarded to minority business enterprises. We intend to encourage the steady growth of Federal procurement opportunities for minority business enterprises.

MBDA's Office of Market and Resource Development also assists minority businesses in penetrating the private market sector by providing product identification, and financial and management resource assistance. This Office funds activities of the National Minority Supplier Development Council and its regional councils. Thus it strengthens the position of minority businesses in the private sector, and alleviates over reliance upon Federal procurement. In 1980, the National Minority Supplier Development Council reported that minority-owned firms received $3.7 billion in purchase contracts from members of the council. This amount reflected an increase of $600 million over fiscal year 1979.

Minority businesses can also increase their share of the market through the acquisition of other firms. To facilitate this type of growth, MBDA has launched a pilot program by funding three professional consulting firms to perform independent analysis, evaluation and appraisal to improve the quantity and quality of information available to minority buyers before a final price for an acquisition is negotiated. In addition, the program develops strategies on financing and tax considerations, and refers minority buyers to sources of financing.

Exporting can be of special benefit to minority businesses. MBDA is cooperating with the International Trade Administration to stimulate minority business involvement in international trade.

Just as we work to develop markets, we are also concerned with the development of people. Through our management development program, MBDA will examine Federal and private sector resources, programs, and approaches that can be used in training of minority businesspersons. I believe it is crucial that minority youth be educated to the view that business ownership and management afford viable career opportunities.

The MBDA Office of Enterprise Development is coordinating various programs which will improve the viability of minority business enterprises. This will increase their penetration into diversified markets.

MBDA also offers a technical assistance program through a network of general business service centers. These ninety (90) business service centers provide business assistance to minority entrepreneurs in the areas of financial analysis, marketing, sales, business operations, procurement assistance, and accounting.

We also envision the leveraging of MBDA funds with other Federal, State, county, local, and private resources for maximum impact on minority business development.

Grant recipients will be selected on the basis of their capacity to provide technical assistance and ability to secure commitments of additional funds and services which augment those provided by the MBDA grant.

MBDA is attempting to determine whether the portfolio management services program can be used to assist the 8(a) firms targeted for graduation by the Small Business Administration. Currently, MBDA and SBA have formed a task force to jointly develop a comprehensive plan to assist the firms targeted for immediate 8(a) graduation and to work with other firms that will be graduated in forthcoming years. These affected 8(a) MBEs may need marketing and cost analysis assistance to increase their success in obtaining contracts without 8(a) support. An internal MBDA marketing task force has been formed to analyze the marketing needs. MBDA will also use the National Minority Supplier Development Council to further strengthen the individual marketing efforts of 8(a) firms in the private sector. The expected result should lessen the reliance of 8(a) firms on Federal procurements.

MBDA funds eight technology commercialization centers, located throughout the country. These centers have reviewed some 400 projects and are currently working on 120 others. Since its inception, the program has assisted in bringing twenty new products to the marketplace. Technology-based firms assisted by this program have received over $43.9 million in contracts, orders, and financing from the private sector.

Our Office of Enterprise Development also supervises a Native American program. Census figures show that in 1972 there were only 1,819 Indian-owned businesses in the entire United States. These had gross annual receipts of only $48.8 million. By contrast, in 1977 there were 4,263 Indian firms which had gross receipts of approximately $327 million. In 1980 MBDA provided services to 1,281 Indian clients, 760 of which were established businesses owned by Indians. MBDA has eight Indian business development organizations in California, Arizona, Washington, Oklahoma. It also has two specialized consulting services to provide Indians with help to develop businesses and become self-sufficient.

It is the desire of the Department of Commerce and my desire to play a major role in the accomplishment of these objectives.

Mr. Chairman, since we are in Los Angeles, the largest SMSA of our MBDA San Francisco Region, I would like to provide this committee with some information on MBDA programs and activities in this area of the country. This region is comprised of Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, and Washington. According to the 1977 "Survey of Minority-Owned Business Enterprises", the 20 major SMSA's of the San Francisco Region contained 30,585 MBE's with paid employees. The SMSA's of Los Angeles and San Francisco accounted for 16,633 of such MBE's or 54 percent of the total. In 1980 MBDA assisted 2,169 of these MBE's with paid employees and another 1,696 which did not register paid employees. These MBDA performance figures do not include MBE's serviced by our special programs such as the industry and technology or Native American programs.

More of our resources and efforts are concentrated in California than in any other State. The San Francisco Regional Office plans to fund 15 general business service projects during fiscal year 1981, 10 of them in California. These projects will provide services to all 20 major SMSA's of the region, 14 of which are in California. The two largest projects are located in Los Angeles, and each of the two will serve over 500 clients.

In addition to the general business services program, the San Francisco Region provides special programs tailored to meet the needs of certain categories of minority business enterprise. These include the industry and technology program (technology commercialization program), the Native American program, the portfolio management program, an MBE legal services program, three small agri-business projects in the State of California, and the regional purchasing council program. The San Francisco Regional Office is also participating in a program which is aimed at increasing minority participation in the architectural-engineering design work of the MX missile project. This effort is being undertaken in cooperation with minority architect-engineering organizations, the Small Business Administration, and the Army Corps of Engineers.

Turning to the private sector, I would like to call your attention to MBDA's relationship with the regional purchasing councils. These organizations are affiliated with the National Minority Supplier Development Council headquartered in New York. The regional councils are primarily composed of large private sector corporations which have expressed a commitment to purchase goods and services from minority firms. Approximately 900 to 1,100 individual MBE's will be involved in fiscal year 1981 transactions.

The growth trends exhibited by each of our councils emphasize the role that the private sector now plays and will play in the future of MBE development. The Los

Angeles Council is typical; in 1975, a $35 million value in assorted transactions was attained. In 1980, $303 million worth of business was transacted with MBE's.

Another new program, our industry and technology program in the San Francisco Region has already yielded demonstrable results. A significant example is that of Oneida Materials, an Indian-owned California company, which has developed a process to decontaminate steel mill iron-oxide wastes, and refine them to make them suitable replacements for newly mined iron ore in the steelmaking process.

Finally, MBDA's San Francisco Region has formal grant relationships with the State of California and the Cities of Los Angeles, San Diego, and Oakland, designed to promote opportunities for minority entrepreneurs. Specifically, MBDA is committed to working with California's Governor and the State offices to encourage and promote favorable purchasing procedures, policies, regulations, and laws. MBDA is also working to substantially increase State financial support for minority businesses, and to ensure that MBE provisions are included in the disposition of Federal grants, grants in aid, general revenue sharing, special revenue sharing, and the Governor's discretionary funds.

In summary, together with the private sector, and in cooperation with other elements of Federal, State, and local governments, MBDA is working to resolve many of the problems discussed at this hearing. Mr. Chairman, I would be happy to entertain any questions you or members of the committee might have at this time.

Mr. Mitchell. Thank you very much. I do have some questions. I am sure Congressman Crockett does, also. But we will take Mr. Strauss' testimony first.

## TESTIMONY OF ROBERT STRAUSS, ACTING REGIONAL ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, SAN FRANCISCO, CALIF.

Mr. Strauss. Thank you, Chairman Mitchell.

I am pleased to appear here today in connection with your inquiry into this agency's role in assisting small and minority business development in the decade of the 1980s.

By way of introduction, I would like to state that the four State area which comprises this region includes California, Arizona, Nevada, Hawaii and the Trust Territory and permanent possessions located in the Pacific. This region has approximately 13 percent of the total business population of the United States, and 21 percent of the minority business population as of a 1972 census count. Preliminary figures for the 1980 census indicate the minority business population may exceed 15 percent here, most of which is located in California. In fact, California alone accounted for over 12 percent of all the established minority-owned firms in this country in 1975.

As a result of these and other demographic data which further support the significant level of minority business activity in this area, our approach in this region is to continue to seek the greatest possible penetration of the market with the agency's range of services.

In fiscal year 1978, this region approved a total of $80.7 million in direct and guaranty loans to minority firms. This total represented 30 percent of all lending done in the region in that year. Fiscal year 1979 registered over $82 million in direct and guaranty loans and approximately the same amount in fiscal year 1980. But during the first 6 months of this fiscal year, this region has guaranteed $59 million of loans to this segment of small business and our yearend projections indicate that we will have our first $100 million year in bank guaranty and direct lending to minority-owned firms, and that in spite of high interest and a sluggish economy.

Statistics regarding our lending efforts in the women-owned business sector are not complete for fiscal year 1978 through 1980. However, in the first 6 months of this fiscal year the region approved approximately $17 million in loans to women-owned businesses. There are fiscal year 1979 figures available for our women's miniloan program; that is, loans for $20,000 and under, and under more lenient credit terms. This region approved 189 miniloans totaling $3.4 million during that fiscal year. For the first 6 months of this year we have approved 153 loans over $2.8 million. If projections hold true, we could double last year's results.

The Agency's budget in the near future is very difficult to predict. We expect to experience cutbacks in certain areas, but in lending we hope to maintain a level of between $375 and $400 million in guaranty and direct loans through fiscal year 1982. In this region, we are forecasting that our level of lending to minority-owned businesses will be maintained during the next fiscal year, despite the cutbacks that may occur.

The first half of the decade of the 1980's will be one of doing more with less here at the Small Business Administration. Our loan procedures have been significantly streamlined and we have made a concerted effort to direct more of the responsibility to process, approve, and service small business loans with the lending institutions that participate with us. We have sought to balance our participating institutions with large bank chains and small independents alike to cushion the effects of a downturn in lending of any one of our participants. We have added a number of nonbank lending institutions to further increase our leverage. We have reduced the turnaround time on SBA approvals of bank loans to 3 days on most qualifying applications. We have standardized our internal paperwork in the region so that a small business applying for a loan in Phoenix will read with the same terms and conditions for a loan as a small business in Fresno.

These improvements have allowed us to make more loans with the same number of people or less, in some offices. An important residual benefit of our relationships with the financial institutions is the hope that the continuing success of the firms we make guaranty loans to will spur our private sector partners into taking on an increased number of small business loans without our involvement.

Our management counseling and training programs have always been well attended by women and minorities, especially women. For example, of the 32,000 people who attended SBA cosponsored business training programs here in this region in the last fiscal year, 47 percent were women. In addition, 23 percent of the attendees were minority entrepreneurs. Attendance at our training sessions over the past 4 years has consistently averaged 23 percent minority against 45 percent women. With the advent of special emphasis programs for women going into business and on training courses held in Spanish and other languages, we are certain to see even greater gains during the years ahead, especially here in California.

Our management counseling efforts are also well received in these two sectors of small business. Approximately 22 percent of those counseled by our business consultant resources—SCORE—the

Service Corps of Retired Executives—the Small Business Institute, and the call contracts program—are minority business owners. That represents over 6,500 cases per year here in the region. The number of women counseled through these resources is slightly higher, at 29 percent.

Although the future of the Small Business Development Centers is still in question, we have developed alternative plans for providing small businesses with business counseling. We are working more closely with trade and professional organizations to develop workshops and problem clinics. We have also found success here in California in conducting business management clinics at national business conventions which are held in the many convention spots in this State. We are also revising some of our prebusiness workshop presentations to reflect more closely the geographic, demographic, and ethnic makeup of these markets. And lastly, we are helping small business better organize itself so that it can demonstrate a stronger voice for services it perceives as being important.

What these totals indicate to us is that we are reaching minority-owned firms and women with our financial and management assistance services in far greater proportion than each group's representation in the overall small business community. A complete breakdown of our primary services to those two groups for fiscal years 1978 through 1981 will be submitted for the record.

## Lending Activity in Region IX by Category

(SBA share only - Dollars in Thousands)

| Loan Category | | Totals | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Region IX | California | Los Angeles | SF | Fresno | San Diego | Las Vegas | Guam/ Honolulu | Phoenix |
| FY 1981 ** | | | | | | | | | |
| GUARANTY | $177,813 | 144,167 | 66,682 | 29,759 · | 37,099 | 10,637 | 7,140 | 8,725 | 17,781 |
| | # 1.288 | 996 | 377 | 246 | 295 | 78 | 58 | 94 | 140 |
| DIRECT | $ 32,968 | 27,298 | 15,758 | 5,913 | 2,298 | 3,329 | 1,539 | 1.153 | 2,978 |
| | # 497 | 385 | 194 | 91 | 44 | 56 | 31 | 26 | 55 |
| MINORITY | $ 58,940 | 48,743 | 30,529 | 9,582 | 5,809 | 2.823 | 1,294 | 5,685 | 3.218 |
| | # 1.785 | 1,381 | 571 | 337 | 339 | 134 | 89 | 120 | 195 |
| WOMEN | $ 16,669 | 14,006 | 5.907 | 4,768 | 1,822 | 1,509 | 389 | 790 | 1,484 |
| | #UNKNOWN | UNKNOWN | UNKNOWN | UNKNOWN | UNKNOWN | UNKNOWN | UNKNOWN | UNKNOWN | UNKNOWN |
| FY 1980 | | | | | | | | | |
| GUARANTY | $269.136 | 223,478 | 110,016 | 43,313 | 46,021 | 24,128 | 8,981 | 12,317 | 24,360 |
| | # 2,111 | 1,656 | 648 | 414 | 394 | 200 | 92 | 148 | 215 |
| DIRECT | $ 45,331 | 36,102 | 16,950 | 11,067 | 3.499 | 4,586 | 2,172 | 1,730 | 5,327 |
| | # 631 | 479 | 224 | 140 | 43 | 72 | 46 | 37 | 69 |
| MINORITY | $ 31,343 | 68,459 | 35,389 | 20,389 | 7.449 | 5,232 | 1,898 | 7.031 | 3,955 |
| | # 864 | 703 | 326 | 213 | 89 | 75 | 26 | 92 | 43 |
| WOMEN | $ * | * | * | * | * | * | * | * | * |
| | # * | * | * | * | * | * | * | * | * |
| FY 1979 | | | | | | | | | |
| GUARANTY | $244,770 | 196,253 | 102,150 | 46.952 | 26,356 | 20.795 | 8,802 | 15,866 | 23,848 |
| | # 2,129 | 1,639 | 690 | 487 | 258 | 204 | 118 | 202 | 170 |
| DIRECT | $ 50,684 | 41,716 | 18,882 | 16,425 | 1,265 | 5,144 | 1,397 | 1,745 | 5,826 |
| | # 714 | 549 | 199 | 248 | 30 | 72 | 27 | 36 | 102 |
| MINORITY | $ 82,497 | 68,656 | 37,338 | 19,634 | 5,625 | 6,059 | 1,688 | 7,526 | 4,627 |
| | # 911 | 723 | 330 | 251 | 63 | 79 | 26 | 98 | 64 |
| WOMEN | $ * | * | * | * | * | * | * | * | * |
| | # * | * | * | * | * | * | * | * | * |
| FY 1978 | | | | | | | | | |
| GUARANTY | $222,071 | 177.123 | 87.152 | 39,594 | 18,058 | 22.319 | 13.236 | 12,334 | 19,378 |
| | # 2.176 | 1,655 | 799 | 479 | 179 | 198 | 138 | 197 | 186 |
| DIRECT | $ 44,549 | 37,960 | 18,733 | 15,202 | 506 | 3,519 | 1,163 | 1,495 | 3.931 |
| | # 724 | 578 | 227 | 257 | 14 | 80 | 32 | 37 | 77 |
| MINORITY | $ 80,776 | 67,224 | 35.630 | 24,168 | 1,923 | 5,503 | 1.493 | 6,908 | 5,051 |
| | # 1,071 | 860 | 441 | 306 | 29 | 84 | 31 | 109 | 71 |
| WOMEN | $ * | * | * | * | * | * | * | * | * |
| | # * | * | * | * | * | * | * | * | * |

* Records not kept until FY 1981.
** Covers the 7 months ending 4/30/81.

Prepared 6/18/81 - Sources: RCN 309 and RO-IX-10

## REGION IX
## MANAGEMENT ASSISTANCE - COUNSELING

| | TOTALS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | REGION IX | CALIFORNIA | LOS ANGELES | SAN FRANCISCO | FRESNO | SAN DIEGO | LAS VEGAS | HONOLULU | PHOENIX |
| FY 1981 * | | | | | | | | | |
| TOTAL CASES | 14,013 | 11,556 | 4,133 | 3,417 | 970 | 3,036 | 303 | 637 | 1,517 |
| # MINORITY | 3,123 | 2,648 | 1,291 | 691 | 178 | 483 | 60 | 251 | 164 |
| % MINORITY | 22.2 | 22.9 | 31.2 | 20.2 | 18.4 | 16.7 | 19.8 | 39.4 | 10.8 |
| # WOMEN | 4,129 | 3,405 | 1,242 | 1,122 | 242 | 749 | 84 | 186 | 454 |
| % WOMEN | 29.4 | 29.4 | 30.1 | 34.3 | 24.9 | 24.7 | 27.7 | 29.2 | 29.9 |
| FY 1980 | | | | | | | | | |
| TOTAL CASES** | 20,878 | 17,435 | 7,494 | 4,662 | 2,018 | 3,261 | 305 | 602 | 2,536 |
| # MINORITY | 4,964 | 4,203 | 2,162 | 1,123 | 318 | 600 | 67 | 308 | 386 |
| % MINORITY | 23.7 | 24.1 | 28.8 | 24.0 | 15.7 | 18.3 | 21.9 | 51.1 | 15.2 |
| # WOMEN | 6,830 | 5,707 | 2,460 | 1,760 | 546 | 941 | 115 | 212 | 796 |
| % WOMEN | 32.7 | 32.7 | 32.8 | 37.7 | 27.0 | 28.8 | 37.7 | 35.2 | 31.3 |
| FY 1979 | | | | | | | | | |
| TOTAL CASES** | 31,395 | 27,248 | 15,972 | 7,332 | | 3,944 | 689 | 651 | 2,807 |
| # MINORITY | 7,714 | 6,836 | 4,356 | 1,834 | | 646 | 85 | 341 | 452 |
| % MINORITY | 24.5 | 25.0 | 27.2 | 25.0 | | 16.3 | 12.3 | 52.3 | 16.1 |
| # WOMEN | 11,143 | 9,729 | 6,210 | 2,299 | | 1,270 | 220 | 239 | 905 |
| % MINORITY | 35.4 | 35.8 | 38.8 | 31.3 | | 32.2 | 31.9 | 36.7 | 32.2 |
| FY 1978 | | | | | | | | | |
| TOTAL CASES | 27,507 | 23,670 | 14,894 | 5,704 | | 3,072 | 692 | 853 | 2,292 |
| # MINORITY | 6,419 | 5,524 | 3,413 | 1,568 | | 543 | 105 | 465 | 325 |
| % MINORITY | 23.3 | 23.3 | 22.9 | 27.4 | | 12.6 | 15.1 | 54.5 | 14.1 |
| # WOMEN | 8,118 | 7,048 | 4,324 | 1,809 | | 915 | 156 | 278 | 636 |
| % WOMEN | 29.5 | 29.7 | 29.0 | 31.7 | | 29.7 | 22.5 | 32.5 | 27.7 |

## MANAGEMENT ASSISTANCE - TRAINING

| | TOTALS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | REGION IX | CALIFORNIA | LOS ANGELES | SAN FRANCISCO | FRESNO | SAN DIEGO | LAS VEGAS | HONOLULU | PHOENIX |
| FY 1981 * | | | | | | | | | |
| ATTENDEES | 24,016 | 16,848 | 8,726 | 4,264 | 1,596 | 2,262 | 1,896 | 827 | 4,445 |
| # MINORITY | 6,210 | 4,768 | 2,993 | 914 | 306 | 555 | 567 | 441 | 434 |
| % MINORITY | 25.8 | 28.3 | 34.2 | 21.4 | 19.1 | 24.5 | 29.9 | 53.3 | 9.7 |
| # WOMEN | 11,496 | 8,111 | 4,040 | 2,082 | 870 | 1,119 | 756 | 374 | 2,255 |
| % WOMEN | 47.8 | 48.1 | 46.2 | 48.8 | 54.5 | 49.4 | 39.8 | 45.2 | 50.7 |
| FY 1980 | | | | | | | | | |
| ATTENDEES** | 32,208 | 25,670 | 13,480 | 4,478 | 4,130 | 3,582 | 619 | 1,395 | 4,524 |
| # MINORITY | 7,293 | 5,930 | 3,371 | 1,076 | 594 | 889 | 66 | 751 | 546 |
| % MINORITY | 22.6 | 23.1 | 25.0 | 24.0 | 14.3 | 24.8 | 10.6 | 53.8 | 12.0 |
| # WOMEN | 15,110 | 11,970 | 5,946 | 2,542 | 1,804 | 1,678 | 298 | 705 | 2,137 |
| % WOMEN | 46.9 | 46.6 | 44.1 | 56.7 | 43.6 | 46.8 | 48.1 | 50.5 | 47.2 |
| FY 1979 | | | | | | | | | |
| ATTENDEES** | 39,405 | 32,016 | 18,526 | 10,910 | | 2,580 | 610 | 1,740 | 5,759 |
| # MINORITY | 8,532 | 6,740 | 4,130 | 2,077 | | 533 | 74 | 935 | 783 |
| % MINORITY | 21.6 | 21.0 | 22.2 | 19.0 | | 20.6 | 12.1 | 53.7 | 13.5 |
| # WOMEN | 17,092 | 12,952 | 7,770 | 4,178 | | 1,004 | 202 | 704 | 3,239 |
| % WOMEN | 43.3 | 40.4 | 41.9 | 38.2 | | 38.9 | 33.1 | 40.4 | 56.5 |
| FY 1978 | | | | | | | | | |
| ATTENDEES | 43,862 | 34,801 | 21,214 | 9,580 | | 4,007 | 976 | 2,144 | 5,941 |
| # MINORITY | 8,889 | 7,130 | 4,572 | 1,926 | | 632 | 104 | 1,052 | 603 |
| % MINORITY | 20.2 | 20.4 | 21.5 | 20.1 | | 15.7 | 10.6 | 49.0 | 10.1 |
| # WOMEN | 18,715 | 14,808 | 9,425 | 3,761 | | 1,622 | 388 | 1,068 | 2,451 |
| % WOMEN | 42.6 | 42.5 | 44.4 | 39.2 | | 40.4 | 39.7 | 49.8 | 41.2 |

* Covers the 7 months ending 4/30/81
** Includes SBDC - Los Angeles and San Francisco

### REGION IX
### 8(A) PROGRAM ACTIVITY
(DOLLARS, IN THOUSANDS)

| | TOTALS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | REGION IX | CALIFORNIA | LOS ANGELES | SAN FRANCISCO | FRESNO | SAN DIEGO | LAS VEGAS | HONOLULU | PHOENIX |
| FY 1981 * | | | | | | | | | |
| CONTRACT $ | 161,178 | 149,195 | 73,021 | 68,191 | ** | 7,982 | ** | 7,260 | 4,723 |
| FIRMS # | 323 | 265 | 120 | 123 | | 22 | | 34 | 24 |
| FY 1980 | | | | | | | | | |
| CONTRACT $ | 211,312 | 202,104 | 100,533 | 86,574 | | 14,998 | | 3,151 | 6,057 |
| FY 1979 | | | | | | | | | |
| CONTRACT $ | 152,995 | | DISTRICT OFFICE BREAKDOWN NOT AVAILABLE | | | | | | |
| FY 1978 | | | | | | | | | |
| CONTRACT $ | 113,022 | | DISTRICT OFFICE BREAKDOWN NOT AVAILABLE | | | | | | |
| FY 1977 | | | | | | | | | |
| CONTRACT $ | 74,583 | | DISTRICT OFFICE BREAKDOWN NOT AVAILABLE | | | | | | |

* COVERS THE 8 MONTHS ENDING 5/31/81

** NO 8(A) FUNCTION IN FRESNO OR LAS VEGAS

Mr. **Strauss**. Our participation in the 8(a) program will continue to increase. Fiscal year 1978 produced a total of $113 million in 8(a) contracts in this region. Since then we have increased our total 8(a) contract volume to $153 million in 1979, $211 million in 1980 and for the first half of this fiscal year $161 million. These gains have not been made, however, without many of the problems that have been attendant to administering this program.

In order for the program to expand to serve a greater number of deserving eligible small, disadvantaged firms, the Administrator has taken several positive steps to improve the management of the program. Our employees here in Region IX are being kept current of all requirements as set forth by the Administrator so that proper and equitable treatment of existing and potential 8(a) firms is afforded. It is only through the improved management of this program that we can hope to broaden our penetration of the minority business market.

The 350 SBA employees who make up this region are aware of the responsibility they share in providing more and better services to the small business community in the Pacific coastal region. They also understand that, in some cases, it may mean less people to do the job than before. It is my objective to continually improve upon our participation with the private sector and our own internal methods to help stimulate economic recovery, small business growth, and increase competition in our economy for all segments of small business, particularly minority business.

This concludes my testimony. I would be happy to answer any questions you may have at this time.

Mr. **Mitchell**. Thank you for your testimony.

On the matter of coordinating responsibility assigned to you—are you the final arbiter on any decisions that are made in IAC?

Mr. **Rivera**. The Deputy Secretary really administers or chairs the IAC. I should mention that Secretary Baldridge, as an indication of his commitment to minority enterprise, has agreed to chair the first IAC meeting sometime this fall. To answer your question, the Secretary is the final arbiter.

Mr. **Mitchell**. But you are charged with coordination?

Mr. **Rivera**. That is right. The executive order gives the responsibility to the Secretary. That responsibility has been delegated to me—certain responsibilities have been delegated to me. In the past, most Secretaries have delegated chairing of the IAC to the Deputy Secretary. But I am responsible, and there are other coordination activities.

Mr. **Mitchell**. I just have a problem——

Mr. **Rivera**. The IAC is one way of coordinating.

Mr. **Mitchell**. I just have a problem. You stated to us you are charged with the coordination, and you do that. Yet you are not the final arbiter in the situation. It just seems to me these are incompatible roles. To say you coordinate everything and then when there is a problem of a decision to be made, you are not the person to make that decision.

Mr. **Rivera**. These matters sometimes involve—could involve the Secretary of Defense, the Secretary of Agriculture, or some other agency. At that time the Secretary of Commerce resolves any differences. In some instances the Secretary of Commerce may not be able to resolve it. It may have to go to OMB or the White House, if there are differences.

Mr. MITCHELL. We in the Congress have had several hearings. This has been one of the major areas of difficulty. How do you pin down responsibility, how do you pin down accountability. I am not going to tautologize the argument. I just say I have some problems with your role being defined as the coordinator, and yet in the process of this coordination you are not the final determiner.

Mr. RIVERA. That is correct.

Mr. MITCHELL. I am also disturbed—and this did not occur under your administration—I am disturbed over the fact that MBDA formerly had grants out across the country to do business development—BDO grants I think they were.

Mr. RIVERA. Right.

Mr. MITCHELL. A goodly number of these were held by minority firms. An order came down from the Department of Commerce last year, through the MBDA, saying that all of those contracts, all of those grants, would then be placed on competitive bids. It is my understanding that as a result of the competitive bid process, 90 percent of the minority firms who had such contracts have been knocked out, and have been replaced by majority white firms. Is that your understanding?

Mr. RIVERA. No, sir, though there has been some displacement in some areas, in some regions. I should say from the outset I share your concern. When I assumed my position in April, one of the things I looked at was holding up that process. I think the process had already reached the point where to hold it up would have caused problems in the minority community in the delivery of services.

Mr. MITCHELL. What do your figures show? I said 90 percent.

Mr. RIVERA. The last figures I saw had something to do with 30 percent minority, 30 percent nonminority, and another 30 had not been allocated yet. It varies from region to region. The Dallas region was the first region to report that the system had resulted in inordinate number of nonminorities. I think out of the 19 general business service grantees, there may have been four or five minorities at tops. So the ratio was 2 to 1.

Mr. MITCHELL. Let's say for the moment my figures are inaccurate—I don't think they are. Given the end result of that policy initiated by MDBA last year, if you had your chance, would you do it all over again?

Mr. RIVERA. No, sir, in fact, we are in the process of reevaluating the entire process. We are expanding the Business Development Center concept to act as the resource managers. It is very difficult for minority firms to compete on a proposal basis with an Arthur D. Little.

Mr. MITCHELL. Virtually impossible.

Mr. RIVERA. Exactly, the results were predictable. I am surprised, sir, that the results are not 90 percent nonminority. I will get you the exact figures.

Mr. MITCHELL. I would appreciate it, because I have to get my data by other methods.

[Information referred to above follows:]

## Analysis of General Business Services Grants Awarded in Fiscal Year 1980 Compared With Fiscal Year 1981

In order to determine the effect of the competitive grant award process upon the ethnic composition of general business service program grantees, I directed my staff to prepare an analysis of the general business services grants awarded to minority firms in fiscal year 1980, the year immediately preceding the imposition of the competitive process, and to compare those figures with a comparable analysis of general business services grants awarded in fiscal year 1981, the first year the competitive system was used. The results of that analysis appear below.

| | |
|---|---|
| Fiscal year 1980: | |
| Total number of awards | 108 |
| Awards made to minority organizations | 106 |
| Awards made to non-minority organizations | 2 |
| Fiscal year 1981: | |
| Total number of awards scheduled | 65 |
| Awards made as of July, 1981 | 41 |
| Awards made to minority organizations | 25 |
| Awards made to non-minority organizations | 16 |
| Awards not yet made | 24 |

An examination of this data provides insight into the real reasons for the decline in the number of non-minority grantees. A reduction in the number of Standard Metropolitan Statistical Areas (SMSAs) eligible for grant awards to 90, the $3.4 million fiscal year 1981 budget reduction and the decision of some regional directors to enhance cost effectiveness by combining grant awards within their regions have combined to reduce the total number of grant awards made under the general business services program by over one-third.

It appears then that the number of minority grantees has declined in fiscal year 1981, the first year of competitive grant awards system. However, this decline cannot be attributed solely or even largely to minority firm's inability to compete with non-minority owned firms' proposal writing capabilities. Other factors, such as budget reductions and the restructuring of service areas, have contributed a much larger share to this decline.

Even under the competitive grant award system minority grantees received slightly more than 60 percent of grant awards made to date under this program. That percentage is expected to climb with the announcement of the 24 fiscal year 1981 general business services grants are not yet awarded.

**Mr. Rivera.** My concern, also, is that we have expended many dollars, and devoted many years to developing an industry, if you will, of minority business development specialists, who are minority hosts and who are very sensitive to the needs of minorities. They have been doing a good job. When asked to compete, as I said before, on a proposal writing basis, they could not. We hope to change that now. We are looking for resource managers in the future. In fact, one of the things that has happened, Mr. Chairman, is that many of these nonminority grantee firms now are out recruiting minorities to deliver the services. Many of them will not go into minority areas. Many of them are insensitive to the needs of minorities, even though they have the qualifications—MBA and the doctural degrees. In view of what I have just described, that is the reason we are reevaluating the program.

**Mr. Mitchell.** One more question for you, and two for Mr. Strauss.

We heard testimony this morning from at least two witnesses, maybe three, that they have experienced enormous difficulty in trying to break into the private sector. These were 8(a) firms. They indicated they just don't know whom to approach. They need a guiding hand, and so forth.

In your testimony you indicate that you are looking at that problem now, with reference to firms to be graduated from the 8(a) program.

My more specific question is, the Office of Minority Business Enterprise has been in operation for at least 10 years. And I am amazed that this problem wasn't addressed. How in the world can we talk about the forced graduation of 8(a) firms when OMBE, your predecessor, now MBDA, has apparently not even looked to bridge the gap.

Do you have any explanation as to why this was not considered in the past?

Mr. **Rivera**. Sir, with all due respect, I can just address the present and future. We are speaking with Mr. Cardenas, and his staff at SBA. We already have one-third of all of the 8(a) contractors as MBDA clients. As I mentioned earlier, we hope to pick up the other two-thirds. Under the new concept of our general business services program their business development plan will be reviewed very carefully, with emphasis on private sector marketing.

This was not done before. Starting this April, when most of the grants were awarded, this was a requirement. In fact, one of the requirements of all new grantees is that they be acquainted with the benefits of Public Law 95-507. We never really had anybody assume that responsibility before. Now we will have 100 grantees advocating the use of Pubic Law 95-507.

Mr. **Mitchell**. Believe me, it is just so typical of Government to have ignored this really potential problem of graduation until we get into a crisis situation. I am not deprecating your efforts at all. I am just fearful whether or not this comes too late, that graduation will be forced on these firms—when you are just beginning to work at providing that bridge. And even if you succeed at providing the bridge, it may come too late.

Mr. **Rivera**. One of the problems, sir, has been differentiating the responsibilities of the 8(a) program officials at the SBA. I would not call this a turf problem.

Mr. **Mitchell**. No; I don't think it should be.

Mr. **Rivera**. In the past, 8(a) certified companies developed an 8(a) plan, which called for possible graduation or less dependence on Government contracts. There are examples—and I can cite examples—of minority firms, or 8(a) contractors who when asked, "Why don't you start going into the private sector" would say, "No way. Why should I? I have a good contract, a Government contract. It is easier. There is less paperwork, less hassle."

Mr. **Mitchell**. Did any of them ever say, "And there is no one really around to assist us in making that bridge."

Mr. **Rivera**. No.

Mr. **Mitchell**. Well, they have said it to me.

Can I put a couple of questions to Mr. Strauss.

In your testimony you indicate that in 1972 in this region you had 21 percent of all the minority businesses; is that correct? But, based on your 1980 figures, you have only 15 percent. That is a significant drop. How do you account for it? Is it moving out of the region, or businesses failing?

Mr. **Strauss**. No. I think, perhaps, it is—I said it incorrectly—but I said that 13 percent of the total business population, 21 percent of the business population, minority business population—but in California alone—that is 15 percent in California alone.

You see, the figures don't really jive, because there was a period when we lost, as far as the disadvantaged and minorities, the numbers.

Thirteen percent of the total business population and 21—that was region. Right now we have 15 percent in California alone.

[Mr. Strauss' submitted corrections follow:]

U.S. Small Business Administration,
Regional Office, Region IX,
*San Francisco, Calif., July 17, 1981.*

Hon. Parren J. Mitchell.
*House of Representatives, Rayburn House Office Building, Washington, D.C.*

Dear Congressman Mitchell: On July 7, I appeared before your panel convened in Los Angeles and testified as to the Small Business Administration's perspective of what the 1980s holds for small business here in Region IX.

In my prepared statement I quoted certain statistics regarding the growth of small and minority business in this Region. Certain of the percentages I quoted were in error. The following is the complete citation of those statistics, with the corrected percentages in italics.

By way of introduction, the four state area which comprises Region IX includes California, Arizona, Nevada, Hawaii and the Trust Territory and permanent possessions of the Pacific. This Region contains approximately 13 percent of the total business population of the United States, and 23 percent of the minority business population as of a 1972 Census count. Preliminary figures from the 1980 Census indicate the minority business population may exceed 25 percent here, most of which is located in California. In fact, California alone accounted for over 19 percent of all the established monority-owned firms in this country in 1977.

I appreciated the opportunity to appear before your panel. Thank you for your interest in the small business market here in Region IX.

Sincerely,

Robert B. Strauss,
*Acting Regional Administrator.*

Mr. Mitchell. Do you know what the total is for the region?

Mr. Strauss. Well, the regional small business population is—I don't have the figures.

Mr. Mitchell. That is all right. I would like to know a little later on.

My last question to you. You have had imposed on you a moratorium on 8(a) certification, a moratorium on business development expansions, and several other moratoriums imposed by Washington. What has been the impact of these moratoriums on your operation?

Mr. Strauss. Well, as you know, until we executed a temporary contract agreement, we were not entering into any new contracts. We have not had any occasion in entering into new contracts or, a problem with BDE, as yet.

Mr. Mitchell. What about certification?

Mr. Strauss. Certification, there is none. There is a moratorium on new applications.

Mr. Mitchell. What is the reaction of the business community, the minority business community in particular, from your perspective, to this moratorium?

Mr. Strauss. I don't think they are happy with it.

Mr. Mitchell. What do you do—say you have been working with a firm and you had it almost close to finalizing its 8(a) certification, and that finalization was related to the fact that that firm had located a contract someplace. Do you give any special consideration to those in the pipeline?

Mr. STRAUSS. Yes, we have tried to get exception in that type of instance, and we had one such.

Mr. MITCHELL. How many have you requested?

Mr. STRAUSS. Just one.

Mr. MITCHELL. Just one.

Mr. STRAUSS. Yes, sir. I had no other where the contingency was based on an existing contract about to be closed.

Mr. MITCHELL. All right. Congressman Crockett?

Mr. CROCKETT. Thank you, Mr. Chairman.

Mr. Rivera, first of all I want to tell you how much I appreciate this statement that I just read. I think you are to be commended. You are comparatively recent as director, is that right?

Mr. RIVERA. Three months, sir.

Mr. CROCKETT. I gather, however, that aside from the financial function of the Small Business Administration, there seems to me to be quite a bit of conflict between the area covered by your Agency, Minority Business Development Agency under the Department of Commerce, and the advocacy functions of the Small Business Administration. Would you agree?

Mr. RIVERA. There is some overlapping, but I'm not sure in reality that it is that significant.

Mr. CROCKETT. I might add, in spite of the conflict I think your Agency is doing a much better job.

Mr. RIVERA. Thank you, sir.

Mr. CROCKETT. Now, what was your comment?

Mr. RIVERA. I will quit while I am ahead.

Mr. CROCKETT. That is good.

Now, I have another question. Maybe I am just old-fashioned, but I have a feeling that to the extent that you have minorities themselves utilizing their prior experience as minorities involved in policymaking positions with these agencies that are supposed to be helping minorities, we get a better end product, they do a much better job—which leads me to inquire how many blacks, Hispanics, or Asians do you have in policymaking positions with the Minority Business Development Agency? Do you know?

Mr. RIVERA. Yes; we have 12 or 13 executive positions and senior positions. We have a minority director, a minority deputy director, a minority chief counsel, a minority head of congressional affairs, a minority head of public affairs, a minority head of marketing policy, and a minority head of the enterprise development area. Eight out of the 12 positions are held by minorities.

Mr. CROCKETT. I think that is very good. Will you supply my office with the names and the titles of each one of those?

Mr. RIVERA. Be glad to, sir.

[Information referred to above follows:]

### MINORITY BUSINESS DEVELOPMENT AGENCY—POLICYMAKING POSITIONS

Victor M. Rivera—Director (Hispanic);
Theron Bell—Deputy Director—Designee (Black);
Barry Robinson—Chief Counsel (Black);
Roberto Ochoa—Chief Public Affairs Selectee (Hispanic);
Robert Maloney—Chief Congressional Affairs (Black);
Herbert S. Becker—Assistant Director for Planning, Budget and Evaluation (White);
Allan A. Stephenson—Associate Director for Policy and Market Development (Black);

Bruce Kirchhoff—Assistant Director for Research and Information (White);
Harold B. Jones—Assistant Director for Enterprise Development (Black);
Charles McMillan—Regional Director—Atlanta (Black);
Richard Sewing—Regional Director—Dallas (Black);
Stanley Tate—Regional Director—Chicago (Black);
Ralph Perez—Regional Director—New York (Hispanic);
Ramon Romero—Regional Director—San Françisco (Hispanic); and
Luis Encinias—Regional Director—Washington (Hispanic).

Mr. CROCKETT. Let me ask you this. It seems to me the transition team for President Reagan, when they were in Washington making recommendations, came up with the idea that the Small Business Administration should be abolished and all of its functions transferred to the Commerce Department; is that correct?

Mr. RIVERA. That was one of the options that was presented.

Mr. CROCKETT. That was one of the options? What was the other option—to let it stay like it is?

Mr. RIVERA. One of the other options was to relocate MBDA's functions within SBA. Now, this is certainly not new, sir. When I joined SBA back in 1973, there had been rumors that something was going to happen, and the SBA would be absorbed into Commerce. There have been many studies on that. It is certainly not a new proposition.

Mr. CROCKETT. Of course your agency in the Commerce Department was created by executive order and it could be abolished by a stroke of the pen of the President. Is that right?

Mr. RIVERA. Yes, sir.

Mr. CROCKETT. And, therefore, if Small Business is transferred to Commerce Department, much of its functions could also be abolished by the President, could they not?

Mr. RIVERA. They could, depending on the nature of the reorganization.

Mr. CROCKETT. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you.

Congressman Siljander?

Mr. SILJANDER. Mr. Rivera, you made a statement regarding that:

> A significant hindrance over the years in assessing the development of the minority business community has been the lack of a reliable, complete data base.

You mention an appropriate amount of our resources will be devoted to developing a useful data base.

What amount of resources are you making reference to there?

Mr. RIVERA. The SBA has already expended considerable amounts of money developing a small business data base. I should mention one of the first things I did when I came over to MBDA was to pirate, if that's the word, the chief economist at the SBA, the person who had been responsible for developing the data base. Consequently, we are pretty far up on the learning curve, and a lot of the upfront money, so to speak, in developing a data base has already been expended. So we are piggybacking that.

To answer your question, I think we are talking about $100,000, in moneys that we would use to do the longitudinal-type studies that need to be done, so we can begin to measure more specifically, and with more specificity, the failure rates of minorities. We really don't have any hard data by industry, by location, by size. We hope to be able to have that in the not too distant future.

Mr. SILJANDER. I take it it would be very important to have that. What kind of timetable are you shooting for?

Mr. RIVERA. That is one of our objectives for this year. This is an ongoing process, of course, collecting the data. We are doing it in conjunction with Dun & Bradstreet, which has some data—SBA data. We are talking to the Bureau of the Census people. Of course there are some confidentiality rules that need to be ironed out. We are also developing an automated data base and a profile system which can reach the PASS system. We are collecting different sources of data. I would think within 6 months we should have some preliminary findings.

Mr. SILJANDER. Thank you, Mr. Chairman.

Mr. MITCHELL. Just one more. During the time I have been in the Congress, I have read we can anticipate a failure rate of new small businesses of about 50 percent after the first year. About one-half of all the new business starts fail after 1 or 2 years. The minority failure rate you say is 80 percent?

Mr. RIVERA. Eighty percent of the businesses would not live to see their 10th year. Over 80 percent.

Mr. MITCHELL. Do you have any data to compare the failure rate under the Federal Government's efforts on behalf of minority businesses to the failure rate that exists or has existed for some period of time? What I am trying to get, is there a gross disparity between the two different failure rates, given 50 percent in the private sector, all new small business starts?

Mr. RIVERA. Some of the studies are misleading because in the past the clientele we concentrated on were the marginal minority businesses. We do not have data yet for the non-MBDA clients. There have been controlled studies. But I don't think the sample has been large enough to come up with anything conclusive. We do know, obviously, the rate for MBDA clients varies according to size. There is a clear distinction. This of course carries through for any business. There is a safety factor there. If you are larger, you can absorb some failures, some disappointments, or a decline in sales. If you are a small minority firm located in a low-income or ghetto area with high unemployment and if you are in retail, the propensity or probability of failure is very high.

Mr. MITCHELL. Thank you very much, gentlemen.

Mr. CROCKETT. May I have just one more question to Mr. Rivera? Is the budget for your agency a line item in the Department of Commerce budget?

Mr. RIVERA. No; the Minority Business Development Agency exists as an agency under Executive Order 11625 which delegates to the Secretary of Commerce the authority to establish an agency to: (a) Implement Federal policy in support of the minority business enterprise program; (b) provide additional technical and management assistance to disadvantaged businesses; (c) assist in demonstration projects; and (d) coordinate the participation of all Federal departments and agencies in an increased minority enterprise effort. The Agency's budget appears as a separate entity within the budget submitted by the Secretary of Commerce for the Department. The Agency receives a direct appropriation as a part of the Commerce Department appropriation from Congress. The Minority Business Development Agency is not included in the Office of the

Secretary Budget. However, many functions which a number of Bureaus in the Department perform for themselves are performed by the Office of the Secretary—for example, accounting, personnel, procurement—for MBDA.

Mr. CROCKETT. Well, to what extent does the present budget situation cut back the amount of money available for your agency as compared to what you had under the 1981 budget?

Mr. RIVERA. The proposed cut is something in the neighborhood of $2.4 million out of a total of around $60 million. Compared to other departments and agencies within the Department of Commerce, we fared very well. I should mention, one of the things I looked at before I accepted the position at MBDA was the President's February 18 message on the budget. I figured that was a sign of commitment on the part of the administration, that our cut was minimal relative to that of other agencies.

Mr. CROCKETT. Now, Mr. Strauss, your budget was cut back about 25 percent?

Mr. STRAUSS. Well, I think in many respects that is a paper cut—if you are talking about our lending limits.

Mr. CROCKETT. I am talking about the amount of money available to carry out the program authorized under the Small Business Administration Act.

Mr. STRAUSS. Our lending in dollars actually would be no less in this fiscal year or next fiscal year than it was in the past fiscal year, give or take a small amount.

Mr. CROCKETT. Is that a separate appropriation from the amount that is allocated to operate your agency?

Mr. STRAUSS. Yes; the operating budget is not included in that.

Mr. CROCKETT. To what extent was the operating budget cut?

Mr. STRAUSS. I am not aware of that, sir.

Mr. CROCKETT. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you, gentlemen.

We will now hear from Mr. Juarez.

Why do you not proceed.

## TESTIMONY OF AL JUAREZ, ACTING DIRECTOR, OFFICE OF SMALL BUSINESS ASSISTANCE, OFFICE OF THE MAYOR, LOS ANGELES, CALIF.

Mr. JUAREZ. Mr. Chairman—on behalf of Mayor Tom Bradley—he would like to have been here this afternoon but was unable to do so—we would like to thank you for coming to the city of Los Angeles.

The people of Los Angeles consider your mission to evaluate the efficacy of our Nation's Federal assistance programs to small business as a vital task. It is our sincere hope that upon completion of your hearings you will concur with this city's administration, that these programs are essential in further strengthening the vitality of America's small and minority business community.

It is especially fitting that you chose to come to Los Angeles as we celebrate the bicentennial of our city's founding and if I may, I would like to set the tone of my testimony this afternoon by sharing with you a few words about the exciting growth of this city, and what significance that has on the development of small and minority businesses community.

In his recent proclamation to the Nation in its observance of Small Business Week, President Reagan, who we in Los Angeles consider to be one of our most illustrious former residents, stated that:

> To revitalize the Nation, we must stimulate small business growth and opportunity. Small business accounts for over 60 percent of our jobs, half of our business output and at least half the innovations of the American economy that keep American industry strong. The imagination, skills, and willingness of small business and women to take necessary risks symbolize the free foundation of the American economy and must be encouraged.
>
> I urge all Americans who own or work in a small business to continue their resourcefulness and successes, for these efforts contribute so much to the entrepreneurial spirit which made this Nation great. It is with justifiable pride that the American small businessman can point to himself as the backbone of our Nation.

The people of Los Angeles can clearly relate to this statement and certainly to that of entrepreneurial spirit. As we review our own history, we find our city has in the past 200 years emerged from its humble origins of the native American village of Yang-Na, and the Spanish-speaking Pueblo of Los Angeles, to that of one of the world's most important centers of commerce, industry, and international trade.

The greatness of Los Angeles can best be illustrated and dramatized by the recognition that this city is the heartland of a 60-mile circle which encompasses a metropolitan area of five counties and boasts a gross regional product of $131 billion a year—a gross regional product which is exceeded only by the gross national product of 12 nations in the world.

The small business community in Los Angeles has certainly contributed and shared in that growth. Last year alone 157,000 small businesses in the Los Angeles District of the Small Business Administration created 85 percent of new jobs and represented 53 percent of the area's business receipts. These figures indicate that the small business community indeed forms the economic "backbone" of Los Angeles and is essential to its existence.

However, as we examine our own business growth and development here in Los Angeles, we discover that until recent years we had not fully benefited from available resources of the minority and disadvantaged businesses. We in turn had not adequately provided that community of businesses with the benefits of our own city's growth. While some minority and disadvantaged business enterprises in the areas of retailing, manufacturing, and other business endeavors have existed to varying degrees in Los Angeles, real opportunities and growth were not really experienced for minority business entrepreneurs until the era following the Second World War. Parenthetically, I would add that one of the most dramatic examples of economic courage and survival was that of the Japanese-American business community here in Los Angeles which disappeared as a result of their relocation in 1942 and did not reemerge as a viable economic element of our city for nearly a generation.

Even during the early post-World War II period, Los Angeles continued to witness the struggles of minority and disadvantaged businesses, who despite their restive competitive spirit, professional excellence, and wealth of marketable skills and talent, could not fully overcome historical barriers impeding their success. Like thousands of small business people throughout America, the minority and disadvantaged business person was, and unfortunately, continues to be, as was recently documented by the White House Conference on Small Business, frustrated by indifferent bureaucracies, cumbersome regulations, and the encroachment of corporate giants who have destroyed many markets traditionally reserved to the small business community.

But even beyond these very important and significant concerns, we found the even more complex problems of covert and outright blatant discrimination directed at disadvantaged and minority business people by majority companies, financial institutions, and government at every level.

Equally as insidious, and at times even more so, has been the lack of confidence exhibited by both the private and public sector toward the skills, corporate responsibility, and professional competence of minority and disadvantaged business persons. The host of ills such as stringent credit requirements, prohibitive interest rates, and the vagaries of the markets and seasons, have been endemic to all small business people. But these ills have certainly been far more aggravated for minority and disadvantaged business people when coupled with historical patterns of discrimination.

What we would define and measure as real progress for the minority and disadvantaged business community in Los Angeles, in terms of their observable presence within the competitive markets of Government contracting, aerospace, construction, film making, television, and the high technology growth industries, was not evidenced until the 1960's when congressional action implemented Presidential concerns for the plight of minority business enterprise.

There is little doubt that the progress and growth of this city's disadvantaged and minority business enterprises would have not taken place without the legislative foresight of Congress and the executive branch under both Democratic and Republican leadership that gave rise to:

SBA's bank participation and economic opportunity loan program; SBA's 8(a) minority enterprise certification program; MBDA's programs and grants which provide management, technical, and business assistance, and contract compliance programs of the numerous Federal agencies.

To this list of outstanding programs, we must add Public Law 95-507, which we feel will have far-reaching positive results for minority and disadvantaged contractors in the building trades. The future success of this legislation has been made evident to us in our own public works programs which include the expansion and renovation of our airport terminals and construction of a multimillion-dollar water reclamation plant in the San Fernando Valley. These major projects signal a new chapter in the utilization of qualified minority and disadvantaged contractors in the building trades.

There are countless success stories that we could cite to document the effectiveness of those SBA and MBDA programs now assisting minority and disadvantaged businesses in making inroads into the Southland's billion-dollar aerospace industry, high technology, manufacturing, and those construction projects which you now see redesigning our city's skyline.

But while such success stories are important in the road to progress in bringing the rewards of our city's prosperity to all our citizens, this is only a beginning when we realize that only a fraction of our area's multibillion-dollar gross regional product can be measured in profits to minority and disadvantaged businesses. This is a fact of special significance in a city where Hispanics, blacks, Asians, and Native Americans account for 51 percent of our 3 million citizens, but who comprise less than 20 percent of all businesses.

The growth and enhancement of the minority and disadvantaged businesses, and their full participation in the life of our city has, since the inception of Mayor Bradley's administration 8 years ago, been one of our priorities. In that regard we have enlisted the support of the Minority Business Development Agency which created the Mayor's Office of Small Business to assist those businesses owned and operated by minorities, women, and disabled persons seeking to bid on the millions of dollars worth of procurement and construction contracts awarded annually to local business and industry.

Since the beginning of this program, minority business participation in the life of our city's procurement activities has grown dramatically. During fiscal year 1979–80, 28 percent of the city's $58 million in procurement and construction contract awards were made to disadvantaged firms. We certainly hope that will increase under Public Law 95–507.

As part of our work, we have developed an effective assistance network with other MBDA-funded programs such as the Business Development Center of Southern California, Cardinal Management Associates, and the Southern California Regional Purchasing Council. This network is assisting minority and disadvantaged businesses to qualify for both private and public sector procurement contracts in Los Angeles.

Through this network and the excellent support of both Mr. Larry Burton, his MBDA staff, Mr. Rudolph Estrada, and the staff of the SBA's Los Angeles District Office, we have effectively assisted minority and disadvantaged businesses with needed financial assistance for equipment, materials, and working capital, as well as management and technical business assistance to successfully bid on city and private sector contracts.

The combined efforts of our respective programs have reached out into the private sector where, along with the black, Hispanic, Asian, and Indian business associations, have linked up with our city's corporate community to develop new strategies and joint ventures in order to insure the participation of minority business enterprise as an important element of the city's continued economic growth.

It has been through such new and innovative alliances of the combined resources of both Government and the various constituencies of our business and corporate community, that our phenomenal prosperity as a city has evolved while others in America attempt to survive urban blight. This alliance recently brought our city through the crisis of massive sudden layoffs as CETA program funding was sharply reduced. Our Private Industry Council and chamber of commerce joined with us in the city government and found thousands of jobs for the majority of our former CETA employees.

Our hosting of the 1984 Olympics in Los Angeles also speaks to the excellent, often remarkable spirit and talent of this union of public and private cooperation. Key to the success of this Olympiad, will not only be our ability to host games, which will be beautiful, efficiently managed, and profitable—but also, marshal the vast resources of business and industry and in so doing, provide a historic opportunity to draw from the wealth of skills and ingenuity of our minority and disadvantaged business people.

Through a special SBA project grant, we have brought together our minority business associations and the Los Angeles Olympics Organizing Committee into a cooperative effort to insure the successful participation of minority and disadvantaged business people in those licensing and merchandizing opportunities which will be derived from the games. The grant will also provide additional technical, management, and business assistance to those business people seeking to bid on contracts and related vending opportunities.

The history of our success in bringing minority enterprise into the mainstream of our economy here in Los Angeles, is we feel the most convincing testimony to support the proposition that Government can play a constructive and edifying role in assisting minority business enterprise become a viable force in our national economy. And based on this history, which clearly reflects our effective utilization of the SBA and MBDA programs, we think it is appropriate and incumbent upon us to comment on those proposed revisions to the SBA's 8(a) and loan guarantee programs.

We have reviewed the report to Congress by the Comptroller General entitled "The SBA 8(a) procurement program—A promise unfulfilled," and while there are a number of recommendations to the Administrator which we could support, we would take issue with the implication that the 8(a) program has limited fair competition in contract procurement in favor of a few minority business enterprises. Moreover, we feel that the report does not go far enough in fully assessing the needs of that sector of the business community, and by not doing so has been unable to advocate needed substantive changes necessary to fully implement the program as was the congressional intent. I think that by pursuing a course whereby we focus our attention on a few companies, who in the perception of some need to be graduated from the program, we run the risk of establishing standards that may be too narrow and rigid. Such standards would limit the flexibility needed by the program to assist young, growing companies in gaining the economic strength and maturity needed to effectively compete in the more competitive contract markets.

We know from our own view of the program here in Los Angeles that much more could be done to stimulate minority business growth through the use of this program. Clear evidence of this is seen in the fact that there are only about 122 minority business enterprises who have been certified as 8(a) contractors, while there are literally hundreds of minority business enterprises in the Los Angeles district alone, who could in fact qualify for the program. In many instances these companies have been encouraged by Department of Defense and other governmental agencies, but have been unsuccessful in qualifying due to administrative constraints on the program. And thus millions of dollars are being lost in Federal defense contacts to minority business enterprises annually in the Los Angeles area.

We share equal concern for the discussions going on in Washington relative to the lowering of the SBA's 90-percent guarantee on bank participation loans to 70 percent. Based on our discussions with our own banking community in Los Angeles, we are convinced that such action would weaken confidence in the program and without question would irreparably damage its effectiveness.

One does not have to be a banking or financial expert to see that in Los Angeles alone the potential loss of millions of dollars would have a devastating effect on all of our business community.

It is the qualified opinion of this city's administration that while we will continue to support those studied efforts to strengthen and improve upon these and other programs, we are mindful that such studies often require further analysis and testimony to fully appreciate the importance and positive impact of such programs on our Nation.

As we undergo our own fiscal austerity measures here in Los Angeles we fully appreciate the requirements of sacrifice and frugality in a period of recovery, in which we must reexamine our national fiscal priorities. Certainly our most pressing concern will continue to be effective utilization of resources, job creation, and stimulating investment in business and industry.

It is our city's firm belief that SBA and MBDA programs are effectively investing in the future of minority and disadvantaged businesses which are vital resources yet to be fully discovered, developed, or utilized in America. This is a vital sector of our economy which when utilized to its maximum potential, will create millions of new jobs, generate new revenues, and revitalize those American cities which the Government has not been able to heal or rehabilitate.

As our new administration in Washington and Congress seek new formulas to curb inflation, stimulate growth, and restore confidence in our economy, there will be the temptation to overlook or perhaps even disturb these Federal programs whose efficiency and success have sometimes not been fully understood or appreciated. In our rush to find new solutions, we must borrow the best tenets of the wise and conservative thinker and exercise due caution in disturbing those formulas for success which have proved sound and productive. The SBA's 8(a) programs and loan guarantee have proved to be such formulas. As in all programs, there are areas which could be perfected, but in attempting to strengthen their administration, we must not alter the character and nature of the programs and render them useless.

In summation, let me state that we in Los Angeles can unequivocally bear witness to the critical and vital role that the Small Business Administration and Minority Business Development Agency's programs have played in underwriting the continued development of our city's minority and disadvantaged business people. While we are convinced, as are our leading corporate citizens, that true economic success and continued growth of Los Angeles can only be achieved and sustained by the incorporation of minority and disadvantaged business people into the mainstream of our city's economy, we also understand and appreciate that the realization of this goal will be incumbent on our continued partnership with Congress and the Federal Government.

Thank you very much.

Mr. MITCHELL. Thank you, Mr. Juarez, for a very excellent and thoughtful statement. I would like to indicate that this generally is the kind of response that we are getting from mayors in large cities, that these two programs in particular, the SBA 8(a) program, and the Minority Business Development Agency, are increasingly integral to their efforts to the economic revitalization of their cities.

How many CETA jobs did Los Angeles lose?

Mr. JUAREZ. Several thousand.

Mr. MITCHELL. 2,000?

Mr. JUAREZ. No; it is more than that.

Mr. MITCHELL. 6,000?

Mr. JUAREZ. I think it may have been in the neighborhood of 6,000 jobs. The number escapes me at the particular moment. The only thing is the hallways are not as crowded anymore.

Mr. MITCHELL. I am hesitant in applauding or not applauding your statement with reference to the absorption of the CETA jobs by the private sector. If there were 6,000 CETA jobs lost, and you said thousands were absorbed by the private sector—if it is 6,000, and maybe 1,000 absorbed, you have one heck of a problem on your hands still in the city. I think it is a little difficult for me to assess the full impact of the statement that you made in your testimony without knowing the precise figures.

Mr. JUAREZ. I think certainly we could provide the committee with the exact figures on that. We know of course that within a short period of time we were able to see within the private sector several thousand jobs. As I remember in one particular report we recently saw, it was over 3,000 jobs. That could be clarified further.

Mr. MITCHELL. Yes. I really want to know about this. Because we had a totally dissimilar experience on the east coast. In Florida, in two cities—Fort Lauderdale and West Palm Beach—the private sector indicated it could not absorb any of the CETA jobs. In Montgomery County, where some 1,500 CETA workers were laid off, and the CETA people advertised to the Washington metropolitan area in the private sector, out of 3 or 4 days of advertising, they got only four responses.

And two, I want to contrast your experience, how you did it, and why these areas could not.

Mr. JUAREZ. I think there is one very key factor that has to be seen in all of this. In some cities they did not have the foresight of using their people in program areas and in departments where they would obtain marketable skills. In other words, what they saw was a boon for projects whereby you had people on pick and shovels as opposed to a situation where you actually brought people into meaningful training experiences. We saw that in Los Angeles. As a result, when we did say goodby to several thousand of our employees, they were marketable, had marketable skills, were well trained, and were in fact welcomed by the private sector.

Mr. MITCHELL. I would certainly appreciate it if you would supply me and the committee with the hard data on this. And also with reference to your coming Olympics in 1984, you are now in a dialog with all aspects of the community to insure minority business participation. I assume this is relatively new, just starting.

Mr. JUAREZ. Yes; it is.

Mr. MITCHELL. Do you have any specific goals that you are shooting for?

Mr. JUAREZ. Yes, we do. In terms—we have not established the goals and timetables per se. But we have recently met with members of various business associations from the minority community. And let me say parenthetically that we are particularly blessed in Los Angeles, and I will underscore that, with the highly motivated and extremely professional minority business associations who are now working as a federation. One of their major projects will be in providing us direct input as part of a procurement task force that will work with representatives from the Los Angeles Olympics Organizing Committee in helping to establish some of the goals we will be working toward. One thing we have to be very mindful of is that unlike other Olympics throughout the world, we will not be seeing major construction going on, with the exception of the Veladrome, and our swim stadium, which will be built at two of our major universities; so that some of the traditional opportunities in the area of construction will not be there.

We will be looking, though, to areas of merchandising and vending opportunities in the Olympic activity. We will be looking to our minority business associations as part of this procurement task force for direction in terms of goal-setting and some of the projects that we wish to undertake. So I think that it is a very new and exciting and innovative approach we are taking here.

Mr. MITCHELL. I think it is an excellent approach. I hope it works. I always look for the bottom line—what dollars went to minorities at the end of all of this.

Mr. JUAREZ. I assure you our business associations have that as one of their foremost priorities. They will be giving us a great deal of direction and counsel on that.

Mr. MITCHELL. What has been the city's experience with respect to the 5-percent preferential bid for minorities? Has it worked?

Mr. JUAREZ. As I am wearing my official hat—yes, I think from the standpoint that we were able to bring a city council that historically had not wanted to venture into this area, because of very difficult political reaction, that they took an extremely courageous stand in terms of, first of all, passing this particular legislation. The only problem that we face is that Los Angeles really being a community of many cities, if you will—Los Angeles Basin has within it at least 32 other municipalities, and we have found many of our minority business people are excluded by virtue of the fact that they have a tendency of living in other portions of the basin which may not necessarily include the city of Los Angeles.

If I may indicate for a moment. The vast majority of our Hispanic population lives outside the incorporated area of the city of Los Angeles, and therefore we find them in the San Gabriel Valley and other areas. And a lot of the light and medium manufacturing going on is found in this area. Five percent excludes them, because you have to be a business located within the municipality. I think we are going to have to take another look at this ordinance and find ways to incorporate the small communities.

In the black community we have a lot of work going on in the El Segundo area, which is another incorporated area, and certainly the city of Inglewood.

Therefore, I think once we broaden the base, we will see a far more effective ordinance. I think we have to go beyond 5 percent and look at a 10-percent ordinance. I think we have to go beyond the $20,000 limit on contracts and extend that. I see the 5-percent reference as being the foot in the door. We now have to go beyond that.

Mr. MITCHELL. OK.

Is it a fair statement to say that though the intent of the 5 percent is laudable, in actuality the impact, given the present political, geographical structure, the impact is not what you or I desire it to be?

Mr. JUAREZ. I would say that is a very, very fair statement, yes.

Mr. MITCHELL. Congressman Crockett?

Mr. CROCKETT. Thank you, Mr. Chairman.

Mr. Juarez, I join the chairman in expressing appreciation for the excellency of your statement.

Mr. JUAREZ. Thank you, sir.

Mr. CROCKETT. I just wish you had spared us that quotation from, "one of your most illustrious former residents."

Mr. JUAREZ. With due respect to Mr. Siljander, I thought we were going to have more of a bipartisan approach today.

Mr. CROCKETT. Very well. Thank you, Mr. Chairman.

Mr. MITCHELL. Congressman Siljander?

Mr. SILJANDER. Ditto.

Mr. JUAREZ. Thank you.

Mr. MITCHELL. Thank you very much.

You will send me that additional information?

Mr. JUAREZ. Yes, sir.

Mr. MITCHELL. Thank you.

Why don't we take a 5-minute break. Then we will hear from our last panel, which consists of several witnesses.

[Recess.]

Mr. MITCHELL. Our hearings will now resume.

If I might ask the following witnesses to come to the witness table: Mr. Henry Feltenberg, president of the Black Business Association, and Mr. C. J. Kim, president of the Asian Business Association.

Mr. Feltenberg and Mr. Kim, gentlemen, thank you for participating. What I would like to do is take the testimony from both of you, get your full testimony, and then we will put questions to you.

Also, I guess I would be derelict or remiss if I didn't thank the Los Angeles Black Businessmen's Association for a very wonderful award they gave me some several years ago. It was a beautiful plaque. It is hanging on my wall in my Washington office. I was grateful for it then, and I am still grateful for it. Thank you.

Mr. FELTENBERG. You certainly deserved it, Mr. Chairman.

## TESTIMONY OF HENRY FELTENBERG, PRESIDENT, TRANS-WESTERN DIVERSIFIED CONSULTANTS, INC., AND PRESIDENT, BLACK BUSINESS ASSOCIATION, LOS ANGELES, CALIF.

Mr. FELTENBERG. Mr. Chairman, I am Henry Feltenberg, president of the Black Business Association of Los Angeles. The Black Business Association is a trade organization made up of over 175 black businesses operating in the Los Angeles area. Our member companies are diverse in nature, with capabilities that include professional services, manufacturing, retail, financial management, communications, research and development, construction, and public affairs. My comments are reflections of views expressed by members of the association I represent and other business persons not necessarily in membership, but sharing similar concerns.

Mr. Chairman, we appreciate your invitation to the Black Business Association to share with this committee our views and recommendations regarding Federal legislative and administrative factors which affect the development and operation of small businesses in general and small minority businesses in particular.

We understand the purpose of this meeting is to provide the committee with recommendations and information to aid you in your oversight of the Small Business Administration's programs; and insuring that any tax reduction legislation considered by Congress includes incentives for small business and small minority business growth. As such, our comments will speak to this purpose. BBA members are involved in a wide range of civic, political, and community programs. Contributing their personal time and resources to the economic growth and development of this Nation. We, too, hold to the American dream of self-sufficiency. We have chosen to enter the marketplace with full recognition of the attendant risk. We have also taken this direction in the hope of realizing the potential rewards for ourselves, our families, our communities, and for the Nation, which result from successful business activities. In order for the United States to maintain its economic strength, a comprehensive program of national economic growth and revitalization must be launched. In such an effort, the minority business community has an important part to play as a full partner with other components of the American business and corporate community. However, centuries of institutional racial discrimination have constrained the development of the minority business community as a full business partner.

Passage of Public Law 95-507 provided a statutory basis for SBA's responsibility for providing maximum practicable opportunity for the development of small business concerns owned by members of socially and economically disadvantaged groups. It is clear that in 1981, we not only need to restate these commitments but to recognize the continuing appropriateness of this Federal support. We have collectively and individually seen the resurgence of racism as a negative factor in contracting and lending practices.

Without set-asides, many of our firms which would be fully competitive in a truly open, discrimination-free marketplace would go out of business within 1 year. The premium of our demise would not only translate in terms of frustration and thwarted personal dreams, but also in terms of cost to the economy. Our collective contributions to the economy are measured in terms of the numbers of persons we employ and the amount of taxes we pay on an annual basis. The Black Business Association is very concerned about the ineffectiveness of legislatively mandated programs to assist the minority business community.

We are also concerned about the continuing reluctance of the Federal agencies charged with responsibility for program implementation to isolate and solve those problems and issues central to the development and financial maturation of minority business enterprises. Public Law 95-507 has been the source of considerable debate. The major prime contractors with Government complain regarding the extra effort required of them to comply with this legislation. We feel that associations such as the Black Business Association can assist in front-end identification of qualified minority firms. Further, it appears that a best-faith effort is acceptable to these monitoring subcontracting clauses as it relates to compliance in this area. Our information suggests that an insufficient number of personnel are available for whatever reasons to monitor these efforts.

In this regard, we are unsure where the fault should lie. However, because the prime must be accountable to someone, Government accountability, if placed, must be enforceable. From the small minority vendor perspective, the door is difficult to open and if opened, the next hurdle appears to be one of breaking down the barriers against giving new businesses an entrance to the true contracting opportunities. There appears to be a considerable dialog between some small minority vendors and some prime contractors. It suggests a viable opportunity to qualify for consideration, only to find in the final review the contractor has gone to a previous supplier. It is inconceivable to me that after this period of time since the implementation of Public Law 95-507 we still have so far to go in this battle for full access to realistic contract opportunities. Reasonable access should be a minimum expectation and not a performance ceiling. The Congress has legislated and passed to the administration a workable tool and it now appears that Congress must ask who is responsible for the levels of success or failure. Why is the Government still issuing contracts to those who violate the intent of this legislation? What are you going to do in an effort to insure future compliance with this public law? When will Public Law 95-507 be what it was intended to be? The lack of success of the 8(a) program and Public Law 95-507 raises a serious question as to the commitment of the SBA to fully utilize the program tool provided by the Congress. We feel that the key problem areas in the SBA's administration of the 8(a) program impede the prospects for effective development of minority business enterprise. These are the lack of program staff who have sufficient experience and working knowledge of real world business practices and problems; insufficient funding to adequately support the various elements of the 8(a) program; lack of clear policy guidelines for program certification, continuation, and completion based on quantifiable and economically defensible criteria; and a weakness and advocacy of minority business development and an inadequate perception of the need to differentiate the service requirements of 8(a) firms at varying levels of their development within the program.

The Black Business Association recommends that the Congress and administration should strengthen oversight of Federal prime contractors and suspend contract activity until compliance with subcontractor requirements of Public Law 95-507 is achieved. And that the SBA develop clear policy guidelines on eligibility for continuation in, and completion of the 8(a) program with publication of such guidelines in advance. Further, that the SBA in its determination of economic disadvantages of 8(a) firms, utilize economic criteria which considers the relative economic stress and circumstances of each firm based on the following factors: Technical assistance availability, market accessibility and market capacity, access to venture and equity capital, credit availability, and covertibility of personal and business assets.

We also recommend that through the application of the above criteria, firms be evaluated by their progress toward the achievement of a level of financial maturity that provides realistic prospects for sustained growth and development outside the 8(a) program. We also recommend that in its evaluation of SBA, Congress give prime consideration to the adequacy of funding to carry out the Agency's mandate. SBA activities relating to surety should be improved and strengthened as well.

There are also other concerns besides that of Public Law 95-507. The small and minority business person has, in addition to those concerns shared by all business persons, the need to identify financial institutions sensitive to their needs and problems. Our businesses have a great difficulty with capital formation and capital retention. Add to the problem of capital formation the fact that there is some talk in the SBA that a reduction in the guaranteed loan status from 90 percent, guaranteed to, say that of 50 percent, may take place. Well, of course, that would stop SBA loan activity, certainly from the independent banks, and would make capital formation that much more difficult.

We must also consider that often the cost of insurance and other forms of protection are negatively related to the location of our businesses. We need sufficient work volume to allow hiring of greater numbers of qualified community residents. We want to make sure that we will get our fair share of the benefits from President Reagan's proposed economic program. We also need some attention focused on the high interest rates and the damage which occurs to our businesses because of them.

One additional subject comes to mind; that is, the Enterprise Zone Act. We urge this committee to make input to insure that the bill will be modified to provide specific incentives for minority companies in the economic development of depressed areas. In conclusion, I will state the position of BBA is that the 8(a) program is a viable one, and should not, for any reason be dismantled.

[Mr. Kilpatrick, Black Business Association, submitted the following:]

### PREPARED STATEMENT OF BOB R. KILPATRICK, MEMBER OF THE BOARD, BLACK BUSINESS ASSOCIATION, LOS ANGELES, CALIF.

I. There is growing advocacy for the merger of the Minority Business Development Agency with the Small Business Administration.

This is not in the best interest of minority business.

II. The General Accounting Office report of November 8, 1979 (PSAD-80-60) is quite clear in pointing out that socio-economic programs in the procurement process are leading factors in the increase of cost of products sold to the government.

However, for years there has been no solution to this problem of black economic development. Now that we have a potential solution to it's "too costly"? Let's be sure we don't lose the effectiveness of a good thing under the guise of saving the taxpayer money.

III. There was a recommendation made to the SBA transaction team on Dec. 10, 1980 and also to the Commerce Department team that the Minority Business Development Agency's and the National Minority Supplier Development Councils minority data bases be discontinued in favor of the SBA PASS System. It has further been recommended that any funds appropriated for other agencies in support of other minority business programs be diverted for updating and maintaining the PASS program.

Minority Enterprise needs its own agency to champion its cause. SBA is not that agency. Its track record speaks for itself. Besides, it would best represent the philosophy of the socio-economic program and the American Economy specifically, if a minority supplier for provision of this kind of service were developed instead of using a Government Agency.

IV. There is need as already presented by some, that the Minority Business Development Agency become the Minority Business Development Administration.

Definitely a plus for minority business.

V. Reviewing agencies are with total disregard in "allowing" administration of the Public Law 95-507 program within major corporations to be stifled by reporting to purchasing or material management liaison.

This is ineffective. This is the area and the level at which the problem lies, and has historically been the bottleneck retarding program growth, and used for maintaining a status quo with regard to which vendors are chosen. And also is the area known to be stubborn in its refusal to make an effort to change.

The administrator of small business programs should not report to that management, i.e. procurement liaison where the original problem is found. But, should be required, to report at no less a level than CEO or VP.

VI. These are examples of clauses, changes and proposed changes to Public Law 95-507 which will even further erode its already weakened capacity:

a. In August of 1980 the threshold for mandatory justification for nonsolicitation and non-award to disadvantaged firms was increased from $10,000 to $100,000. This has allowed loss of much opportunity, for minority involvement.

b. Now, its being proposed that contract by contract plan requirements be deleted in favor of one annual small business plan on overall company performance. This is another device to revert back to a privilege to pick and choose areas and contracts for involvement. I'm certain if the annual overall business plan concept is enacted, certain contracts will have no involvement.

c. There is proposed legislation change where only large businesses with gross fiscal year U.S. Government business in excess of $5 million be required to submit plans! This obviously lets too many firms "off the hook"! Also, this provides almost a calculable loss to minority business. Enactment of this would be absolute absurdity!

d. Aggregate Corporate Plans should not be permitted. This, however, is being proposed. Each cost center should continue to be held accountable.

e. Where it may be suggested that percentage goals be based on "captive potential" for small and small disadvantaged business this should not be allowed. "Captive potential" can be whatever you make it. Too arbitrary.

f. There is a strong tendancy to remove the "breech of contract" provision in the law to replace it with . . . "if there has been demonstrated a willful lack of good faith . . . the cognizant administrative agency may initiate an action to issue a temporary suspension or debarment order in accordance with applicable agency regulations and the provisions of the administrative procedure act. Provided, however, no debarment or suspension order may finally be issued without the approval of the secretary of the agency concerned. Further, no debarment or suspension order may be imposed unless first a cure notice permitting such contractor a maximum of 180 days to bring his program into compliance with the approved plan and such cure notice has subsequently been ignored or breached by the contractor." This is a soft shoe number to evade being compelled to comply to the contract. This change must not be permitted.

VII. As required now, under section 211 of Public Law 95-507, ". . . award of contract may not be delayed . . . while negotiating an acceptable plan . . .".

This writer feels that the subcontracting plan is the crux of the entire law, and certainly warrants greater respect. Not only are awards made where the acceptability of a plan is in question, but dollar and percentage goals are considered to be not negotiable. In other words, what ever is submitted is acceptable. This area should be strengthened!

Mr. FELTENBERG. We thank the committee for the opportunity to present our views.

Mr. MITCHELL. Thank you for having been with us all day. We do have some questions for you.

Mr. Kim?

## TESTIMONY OF C. JAY KIM, PRESIDENT, ASIAN BUSINESS ASSOCIATION

Mr. KIM. Mr. Chairman, gentlemen, my name is Jay Kim. I am the president of the Asian Business Association. As the president and spokesman for the members of the Asian Business Association, I fully support the goals and objectives of the Small Business Administration's 8(a) program. Our membership is made up of about 80-percent high technology or manufacturing firms capable of fulfilling direct Government contracts and subcontracts. The 8(a) program is the only program that allows socially and economically disadvantaged small business owners to effectively compete against large majority corporations for Government contracts. Without the 8(a) program, minority-owned small businesses would encounter overwhelming odds in obtaining significant business from the Federal Government.

Admittedly, the 8(a) program has its shortcomings. SBA's selection process of certification is bogged down in paperwork and manpower shortage. My personal experience of trying to become certified has been frustrating. My first application was submitted in June 1980. I did not receive a response until May 12, 1981—1 year later. I believe there should be no more than a 3-month waiting period for the certification process. After 3 months, an applicant should be notified of the application's status. Presently, there are many applicants on hold, including my own application.

However, I do know from some of our members who are certified, that the 8(a) program is an invaluable steppingstone in assisting their business growth and progress. An improved 8(a) selection system will insure that only small businesses which have the capabilities and growth potential be in the 8(a) system. An improved monitoring system will insure that these firms will take the initiative to use the program only as a steppingstone and not rely on the program as their sole source of business. The 8(a) firms should utilize their own marketing strategies in the private and non-8(a) Government sector to expand their source of business.

We understand that between 200 and 300 firms presently certified are targeted to be dropped from the 8(a) program. We concur with this concept, but request that this goal be increased to 400 or 500 firms. In addition, we request that the present number of 8(a) certified firms be increased from 2,300 to 4,500.

In our opinion, there are a significant number of 8(a) firms which are not qualified for the program and should be removed and replaced by more qualified minority firms. The reasons for termination include the lack of non-8(a) sales, no 8(a) contract support, inadequate growth and potential and exceeding standards for graduation.

It is in the area of managing and monitoring the performance of 8(a) firms that the SBA has failed and has caused a tremendous adverse public reaction to the program. Unfortunately, many detractors consider the program's concept to be faulty, when, in reality the implementation is the culprit. However, we feel SBA is correcting many of these deficiencies and is developing a change of this program to a more effective one. Consequently, we feel that the 8(a) program should be expanded to allow a greater equitable participation by all minority firms. Only through this expansion, can the Federal Government significantly increase its procurement from minority-owned firms.

Theoretically, the minority subcontracting program mandated by Public Law 95-507 should have promoted substantial and continuous increases in minority procurement. However, this has not been the case. Most Federal procurement agencies are not effectively implementing public law to the point that it is business as usual. As a result, prime Government contractors are given insignificantly low goals for minority procurement and they are not being encouraged to exceed the goal. Contrary to the intent of Public Law 95-507, this has created imaginative loopholes to get around doing business with the socially and economically disadvantaged firms for whom Public Law 95-507 was supposed to assist in the business and economic area.

I want to thank the members of the House Committee on Small Business for inviting a representative of the Asian-American business community in southern California. Until very recently, Asians were not aware of many small business and economic development programs. Through our association, they are becoming informed about the system of Government procurement and procedures. They are also beginning to utilize services available through Government and other nonprofit business development organizations.

Programs such as SBA's 8(a) program will definitely impact the Asian-American business community. The future of Asian-American-owned businesses presently certified and the many businesses awaiting certification will depend on how the SBA will fairly and effectively develop and implement the new and future regulations. But SBA needs congressional support to develop and expand this program including monitoring Public Law 95-507. The fate of this essential program along with the development of minority businesses throughout this great Nation rests on your hands.

In summary, we endorse and support the SBA 8(a) program. However, we would like to see some modification, such as SBA's proposed accelerated graduation program. In the professional service area, we would like to see every 3 years at least one-third of them be graduated. In other manufacturing areas, 5-year graduation period, at least one-fifth be graduated. There are some exceptions—those companies which are not able to receive contracts be separately dealt with, maybe extended another year.

Also, we would like to see that the present program be expanded; 2,300 firms nationwide is not significant enough. If you are really serious about helping minority programs, I think it should be increased to at least 4,500.

Thank you very much.

Mr. MITCHELL. Thank you, Mr. Kim. Congressman Crockett, would you lead off the questions for us?

Mr. CROCKETT. Thank you, Mr. Chairman.

I think Mr. Feltenberg and Mr. Kim each have touched upon the basic weakness in the administration of the Small Business Act, which is a weakness over which the Congress has very little control, because it relates to the implementation of the law. And that implementation is given to the executive and not the legislative branch of the Government.

Mr. Kim, for example, complains about the length of time that it takes to process applications. And that, I believe, is due primarily to the small amount of staff available to carry out that processing operation. Mr. Feltenberg complains about the fact that we are really not enforcing a policy of no discrimination as far as the letting out of contracts is concerned, nor a policy of setoff. And there again we have to look to the administration and to the executive branch.

Now, when you realize that this administration is proposing a terrific cutback in the amount of money available to the Small Business Administration, you have to come to the conclusion that you can't expect too much relief.

Mr. Chairman, I think you will support me when I say that at the time the cutback of something like 25 percent was recommended, you vigorously opposed it, and we offered a compromise of cutting back only 10 percent. But all of the Republicans and six Democrats on this committee voted to go along with the 25-percent cutback. Now, that is a problem that you are confronted with.

So that while we are sympathetic to the complaints, somewhere down the line you have got to arrange to bring some pressure on—what he called—that most illustrious former resident of your State—to see if you can get him to go along with it also.

Thank you, Mr. Chairman.

Mr. MITCHELL. Congressman Siljander.

Mr. SILJANDER. Well, I cannot agree with those comments, as I did last time.

But, Mr. Feltenberg, something you said was very, very interesting to me. You mentioned in the latter part of your presentation that the free enterprise zone concept, can be developed for minority businesses. I am challenged by the idea of free enterprise zones. I represent Benton Harbor, Mich. Mr. Crockett, earlier mentioned how we have problems with high unemployment. I think Benton Harbor has the highest unemployment of any city in the Nation. The estimates are near 40 percent, if you can imagine that. The city is made up almost entirely of minorities. It has been ignored historically. One way out I am investigating is the free enterprise zone idea for Benton Harbor as a demonstration to see if that would work for the rest of the country.

There are so many cities that there are areas that could certainly use a boost, Los Angeles included. I, for one, especially want to do that—to keep in mind as we are looking, as the Congress is developing looking into the free enterprise zone idea, which I think has tremendous merit, that we ought to look to see how we can apply that to make sure that minorities are not going to be thrown to the wayside on this whole effort, that we don't just bring in major corporations and let them take over the whole zone. I think this has to be taken into consideration.

The Garcia-Kemp idea, let's say, is the base that we are looking at. But I certainly, for one, believe we need a demonstrational project to prove this idea can work, and it certainly should include an area that minorities can in fact take advantage of this idea, of free market stimulation.

So I am encouraged by that comment. If you have any additional comments you would like to make on this subject I would certainly appreciate your forwarding any information to me.

Mr. **Feltenberg**. The association would be happy to forward information. We are developing some ideas and concepts right now. As soon as they are finished, we will send you a copy.

Mr. **Siljander**. Thank you, Mr. Chairman.

Mr. Kim, I appreciate your comments, too. I, for one, agree—there may be different mechanisms we may analyze as to why there is such a ridiculously long time in processing. The chairman certainly brought this point up earlier. It has been brought up by many others testifying earlier—the seemingly wild time it takes to process some of these loans. I certainly agree with you. I certainly think we need to look into that. Again, there is disagreement on the committee as to why this is—lack of staff. But I think we ought to analyze what is happening, and how it can be corrected most efficiently and effectively.

Mr. **Kim**. Thank you.

Mr. **Siljander**. Thank you, Mr. Chairman.

Mr. **Mitchell**. Just some brief comments from me—not really questions.

With reference to the Agency's not complying with the law, Congressman Crockett is quite right. The executive branch is charged with the responsibility for the implementation of the law. But over the years that I have been in Congress, I have found that the oversight function by the Congress does indeed spur agencies to comply with the law. Unfortunately, this year we have been in the "Battle of the Budget." From January until now almost the entire time of the committee, the full committee, has been consumed in terms of the budget fight and the reconciliation fight. While it is true some subcommittees have conducted oversight functions, up until this point the full committee has had little time to do that. Now that the bulk of that fight is behind us, it is my intention to launch oversight hearings as quickly as possible, agency by agency, in terms of compliance with Public Law 95-507. We did it last year, with some very felicitous results.

Toward that end, it would be very, very beneficial for me if you would supply me with the names of the agencies and the contractors that are circumventing the law. You made a statement, the difficulties that your members are experiencing. It is awfully difficult for us to deal with a general statement like that. If you will supply us with specific instances, where an agency let a contract to a prime without that prime being in compliance with Public Law 95-507, we will treat it on a confidential basis and we will certainly—I started to say nail that agency to the cross. Let me put it another way—we will certainly have vigorous oversight with reference to that agency. If you would send me that material, I would appreciate it.

Mr. **Mitchell**. Mr. Kim, I do disagree with you on the graduation policies. I am not going to question you about it. I just want to let my position be made clear. I think we have sufficient studies, sufficient testimony from both the public and private sector, about the length of time that it takes a business to truly become viable enough to go public. I firmly disagree with the 3- to 5-year graduation. I think the problem—I think perhaps you are approaching it that way because there is not enough access for other firms to get into the program. That may well be true. But the problem is just the other way around. We have limited resources—it seems to me what we need to do is expand the resources to bring 4,500 firms in, and keep them in there for a sufficient length of time until they can effectively compete.

I just have extreme difficulty in agreeing to a forced graduation when every single fact that I have seen or heard over the last 10 years in the Congress with regard to the viability of a company in the public sector flies right in the face of forced graduation.

At one of our hearings we had a gentleman whom I admired so very much. He said he was a strict conservative, he didn't believe in any Government programs at all. But then he went on to make the point that since we do have these Government programs, and we have an 8(a) program, that it is just ridiculous to force 8(a) firms to graduate when they have no access to risk capital, the Wall Street people are closed to them. I didn't admire his philosophy when he said no Government programs but I admired his facing up to the reality of the situation. As I recall his testimony, he said without any hesitancy if these firms are forced to graduate, even the best of them, it was his prediction they would be out of business within 18 months to 2 years because they don't have access to capital.

Thank you both, gentlemen, very much for being with us.

Our next witness is Mr. Calero.

We have been joined by two very distinguished members of the council here.

## TESTIMONY OF DAVE CUNNINGHAM, COUNCILMAN, 10TH COUNCIL DISTRICT, LOS ANGELES, CALIF.

Mr. **Cunningham**. I am Councilman Dave Cunningham, of the 10th council district.

We just concluded our business in our committee to rush over to wish you well and hope you enjoy your stay while you are in the city of Los Angeles. We are pleased that you have come out. We think to a degree, the city of Los Angeles is exemplary of a city that can provide opportunity for minority and small business. I know you have had a chance to hear from the director of our mayor's Office of Small Business Assistance, a program that I am very proud of. I had a tremendous hand in creating and developing the idea, carrying the legislation, and overseeing its funding activities since it has been part of the city's program.

We have been successful in proving that contractors of small and minority background can successfully do business with our city. We are proud of that. We are proud to see that you continue that thrust, Congressman. And we want to welcome you.

Mr. **Mitchell**. Thank you for your remarks.

## TESTIMONY OF ROBERT FARRELL, CITY COUNCIL, LOS ANGELES, CALIF.

Mr. **Farrell**. I am Robert Farrell, with the city council of Los Angeles. On behalf of myself and our distinguished colleague who did not come over, Councilman Gilbert Lindsay, we want to welcome you to Los Angeles, and welcome you to Gil Lindsay's district, and to say our house is your house. Mr. Congressman, any time you want it, you have it.

Mr. **Mitchell**. Thank you very much. I thank both of you gentlemen for dropping in.

Thank you for allowing us to introduce these two distinguished lawmakers, Mr. Calero. I understand Mr. Stalling cannot be here and you have his prepared statement.

Mr. Stalling is the president of the United Indian Development Association. Mr. Calero is president of the Latin Business Association. If you would like to present both of those testimonies as of this time, we would be grateful.

## TESTIMONY OF JOSE CALERO, PRESIDENT, LATIN BUSINESS ASSOCIATION

Mr. **Calero**. Certainly. I would like to offer first that Mr. Stalling left it up to your desire whether we read this publicly. We did want to insure it be in the record. If you wish, we can pass it over. I am not prepared to answer any questions that you might ask with regard to these matters.

Mr. **Mitchell**. Without objection Mr. Stalling's prepared statement will be submitted for the record.

Mr. **Calero**. Thank you.

Also, may I submit Mr. Stalling regrets he cannot be here today. He was here for a while, but his wife underwent a serious medical operation today.

Mr. **Mitchell**. We wish her a speedy and full recovery.

[Mr. Stalling's prepared statement follows:]

### Prepared Statement of Steven L. A. Stallings, President, United Indian Development Association

Chairman Mitchell and members of the committee, my name is Steven L. A. Stallings, I am here as the President of United Indian Development Association, the nation's oldest and largest Indian business and economic development firm.

Our experience spans thirteen years, some 25 states, and over 20,000 individual and tribal enterprises. It is from this experience base that we present the attached testimony.

#### SOCIAL ECONOMIC CONDITIONS OF INDIANS

There are more Indians living in the U.S. than most people think. In fact, Indians had the largest populations growth rate in the nation (76 percent increase from 1970 to 1980). American Indians number 1,418,195 nationwide.

While, Indians number less than one percent of the total U.S. population; nevertheless, in the fields of health, education employment and especially business and economic development, their needs exceed those of other segments of the population, and to date those needs have been largely unrecognized and therefore unresolved.

An examination of the U.S. Census Study shows the following statistics:

Only one tenth of one percent of all minority firms are owned by American Indians.

Unemployment rates run as high as forty seven percent and less than one half of one percent are employed in companies that are self owned.

The average income of an Indian family (4.5 people) is only $3,500 and 38.3 percent of all Indian people are below the poverty levels.

The average value of an Indian occupied home is $9,000 and over 50 percent were built prior to 1940.

These deplorable statistics go on and on for infant mortality rates, health figures, education levels, etc. It all adds up to one undentable fact; that Indians, because of past government action and nonaction, suffer the ill effects of economic deprivation to an extent unequaled by other disadvantaged groups.

### SPECIAL CONDITIONS SURROUNDING INDIAN ECONOMIC GROWTH

The depth of poverty in Indian communities belies the tremendous potential for rapid progress. Business in our free economy serves the needs of society. Human needs present business opportunity to meet those needs. Therefore, when one speaks of lack of utilities, roads, water systems and community facilities as indicators of underdevelopment, one is also compiling an impressive list of business opportunities that must be seized if people's needs are to be met in other than a welfare mode.

A number of barriers exist that have their roots in the callous manner which the Federal Government as an agent of society chose to enrich itself at the expense of the native population. The extreme geographical, social and economic isolation imposed upon Indian communities resulted in communities devoid of any private enterprise and totally dependent on private and public charity for existence. This historical experience is duplicated across the United States in community after community.

Whether an Indian lives in the city or on a reservation very real barriers to economic growth exist. There is a low level of experience in business management within the community. Due to impoverished conditions there is little or no equity or venture capital available.

The tribe as a unit of government is denied the means of attracting development capital that other units of government in the United States utilize such as municipal or industrial bonds. The land holdings of the tribe and its individual members, their principal asset, cannot be used to leverage capital due to its unique restricted trust status.

When these barriers are combined with prejudicial attitudes which are deeply engrained in society, it is little wonder that Indian development lags not only behind that of society in general, but other minority groups as well.

While Indians are last by nearly every socio-economic measurement, Indian communities for the most part are capable of significant progress. It is in this respect that it is totally inappropriate, to view an Indian community whether it be on or off the reservation, in the same light as other minority groups. This is because Indian economic progress must be built around strategies and concepts not unlike those employed by lesser developed natons of the third world. Indeed, the parallels are striking for in terms of health, education, community economic infrastructure, employment levels, birth rates, land and natural resources, Indians and lesser develped nations are in very similar cirumstances.

Indians are in effect nations within a nation, states within states. This unique status is derived from Indian rights to self government that have never been extinguished. This status has been given a legislative base for government policy formulation in Public Law 93-638, the Indian Self-Determination Act and has been reinforced by treaties, executive orders, and supreme court decisions.

The elements available to Indians for economic development can be classified as internal and external. Internally Indians have land, natural resources and surplus labor. They possess sovereignty over their land and people. The possession of natual resources, land and sovereignty dictates that Indian development must follow another approach from other minority groups.

There also exists a whole array of external factors that if properly organized could lead to significant economic progress. All programs to assist minorities on the part of the Federal government by definition must include Indians. However, because of the unique Federal Indian relationship, there also exists programs and agencies designed to serve Indians as a separate classification. There is for example the Indian business development program in the Bureau of Indian Affairs created by the Indian Financing Act. The "buy Indian" act and the enforcement of Public Law 93-638 compelling DHHS-ANA and USED to award competitive bid contracts to Indian owned firms on a preferential basis. The "buy Indian" provision of the act creates an immediate multimillion dollar market for Indian entrepreneurs.

The list can go on and on with regard to DOL-CETA, DHHS-IHS, etc. The point is that these resources exist within the federal structure but must be organized and fitted to a local situation by those knowledgeable and committed to the desk.

Federal resources are not the only external factors available for Indian economic development. For example, the State of California is becoming more aware of the role it played in impoverishing the Indian population and the responsibility it has in helping to create more favorable conditions for Indians. The creation of an State Indian Coordinator and a special Indian Commission on the state level are indicators of this new trend. The United Indian Development Association now has in progress a Tribal Enterprise Development program financed by the State of California.

The growing importance of land and natural resources is creating more opportunities for Indians in agriculture, recreation, renewable and non-renewable resource development, construction, manufacturing and service industries. In short, the resources and opportunities exist for Indian economic growth but this can only be accomplished through systematic assistance in overcoming the barriers to Indian economic development.

The Small Business Administration can become a more effective partner in this effort by:

Providing eligibility for tribal enterprises to SBA programs regardless of their status as socially or economically disadvantaged and percentage of ownershiip factors.

Provide for multi-portfolio certification of Tribal Enterprises due to their isolated markets.

The competitive spirit promotes effectiveness and efficiency in a company. The previous government error was creating firms that survived soley on 8(a) work. This did not leave room for the really needy to enter the program in future years:

A schedule of graduation must be established and enforced. If a company cannot make it economically in (5) years then they should not be competing in the market place, other alternatives could also include:

1. Sole source contracts.
2. Negotiate contracts.
3. Competition among 8(a) firms only.
4. Open competition with other small business only.

The work on a contract could also be graduated based on capability. This will ensure a company's growth. Suggested criteria: Percentage increase in gross sales annually. The general goal would be to promote competition in the private sector. This could be accomplished by MS and TA especially in the marketing area.

Certificate of a whole company, not just a branch is urged.

A company certified in its headquarters but not at branch offices, even though it is completely eligible, can't participate in the program. Certification should encompass the whole company.

"There are too many firms certified to allow further participants in the program."

This obstacle completely shuts out Indian firms from participating in the program. As Indians are just now starting to participate, the door is shut.

However, if criteria was solely based on need and being economicaly disadvantaged. The mere 100 Indian certified firms in the west would be 1,000 eligible companies.

Tribal enterprise is a form of a public corporation—the individual tribal members are a form of stockholder and Indians as a whole, are disadvantaged. This is the real ownership of tribal enterprises, its government resources cannot be considered as assets.

The local market of a tribe cannot be used as the excuse for denial; other criteria can be established to allow certification (i.e., percent market share, percent of gross sales, unemployment, gross income for tribal members, etc.)

The overall goal of Certification of 8(a) firms on reservations would be to further economic development and create permanent jobs.

The only contact a firm gets from SBA is a request for quarterly Financial Statements and updating annual business plans.

A better coordination of MS & TA and 8(a) programs to improve management skills and promote graduation is recommended. A regional contracting program to supply these services will make this a reality.

Companies should be eligible to market their 8(a) status to acquire work for themselves—especially when not getting help.

A strong recommendation is made to establish Indian Liaison Officers in SBA, where significant Indian populations exist, to coordinate SBA efforts in 8(a) and other programs that affect Indians.

Mr. Chairman and members of the Committee, thank you for your patience and the opportunity to apear here today. This concludes my testimony.

Mr. CALERO. Thank you. Again, my name is Jose Calero. The Latin Business Association is an organization of Hispanic businessmen and women who are in business here in the Greater Los Angeles area, and I am representing the Federation of Minority Business Associations of which I am chairman. The federation is a coalition of the four major minority business associations of Los Angeles. They are the Asian Business Association, the Black Business Association, United Indian Development Association, and, of course, the Latin Business Association.

Rather than come up and present a prepared text, which unfortunately we don't have here for dissemination, all we really want to do is underscore what has been said by the other presidents who have spoken before you.

Anything that I would say would be somewhat redundant, because we realize that our needs, specifically as Hispanics, are shared by those in the black community and the Asian community and the Indian community as well. The concerns of any small business community quite realistically are focused in the agreements that they themselves want to gain for themselves and their community. Again, they are the same as all of us share. The Latin Business Association, like the others, are endeavoring to provide for their own community or constituency. Those opportunities that will allow them to make the gains that they are rightfully entitled to make at whatever development of their business.

Again, the focus of this committee is to hear recommendations on the improvements on the 8(a) program, as I understood it. I am prepared to say I am in agreement with what has been said in a general statement by all the past presidents of the federation regarding the improvements that are needed in the 8(a) program and cutting down of certain waiting times, and cutting down of the burdens of reams of paper that have to be filled out in order to be qualified. You have heard the horror stories in the qualification process. You have heard the horror stories that go on in the waiting process. I know of one particular member of the Latin Business Association who went to the extent of hiring an attorney in order to move the process along and, in fact, did it, and it only shortened it by 3 months. Unfortunately, you have to go to these limits in order to penetrate the system.

The 8(a) program is by far and away probably one of the best aid programs that the Small Business Administration has available to us right now. The 8(a) program is an opportunity whereby an individual who is lacking the market region penetration of a more sophisticated and larger company can in effect come in and compete for contracts with the Government and can successfully fulfill the agreement of the contract.

However, I believe, as Jay Kim, Henry, and Steve Stallings, that there has to be some sort of a timetable applied to graduation out of the 8(a) program. I believe it is important for our people—and when I say our people, I am talking about minority business in this city, a city that has probably the largest minority sector in the

Nation, a city that has and is represented by the most—the strongest coalition of minority organizations anywhere in this Nation. And this has come about because we all recognize that we have needs and responsibilities to our community and we cannot fulfill them individually so that synergy was needed to be created and was, in fact. It has given us a tremendous power base, and people do listen to us more attentively. But still the fact remains that some of the copious amount of paperwork, the filling out of this, in order to become qualified for these programs, provides a certain amount of frustration and discouragement to many, many individuals who are applying for this.

We would only suggest that a very serious attempt be made to not only cut down the amount of time and paperwork that it takes to be qualified, but that also some very specific guidelines be given as to the time in the 8(a) program.

I know, Chairman Mitchell, you have not agreed to timetables.

Mr. MITCHELL. Let me interrupt you. I do agree with the timetable, but a realistic one.

Mr. CALERO. So do I. I agree there should be some realistic focus placed on this—who is doing it, when is it going to happen, who is going to suffer for it, how many of the businesses you alluded to a while ago will collapse before something specific, some guideline is put into force.

So we would respectfully submit that if anything comes out as a result of the findings of this committee, that there be some very strong recommendation made on improving the system.

One of the standard jokes that goes around in Los Angeles as regards the 8(a) program applies itself to the Catch-22 situation that exists when you go to apply. In order to become qualified you have to have a contract; in order to have a contract, you have to be qualified. Where does it begin? Where does it end?

Again, I would like to conclude by saying if the focus can be given to paring down the system, qualifying people, and giving them the appropriate aid they need. And I would just like to add quickly, through the SBA I have found a tremendous resource of services that are available to the minority community, that we are directing our members at, and also channeling through the federation, so the presidents of their own respective organizations can direct their members. We now have what we consider to be someone in the director's position of the local Los Angeles office that is attuned to our needs, that does have that sensitivity, because never before have we had this. We need people who understand our problems. We don't need people who sit at a desk somewhere in Washington and say, "This is what I think is needed."

There has to be some serious attention given to our needs, to the individual running a business, who wears 15 or 20 hats during the course of one day, and doesn't have time to get behind all these records, and open these books and figure out what this means. There has to be a simplification process.

There are a number of things. I could go on and on. But I would like to conclude by saying if there can be some very specific effort to paring down the system, facilitate the process, making it simpler to apply, I think everyone will benefit from the guidelines for graduating from the program.

Mr. MITCHELL. Thank you very much. What has come out of these hearings for me is the responsibility of this committee and the Congress to focus in on oversight, No. 1; to start to deal with some of the problems of timelag. It just doesn't make sense, when SBA year after year has said our objective is to move toward certification or to deny it within 90 days. That is the objective they set themselves. And here we find 2 years later, 3 years later, they are still taking 18 months to do it. I think it might be in part an insufficient number of personnel. But I don't believe that is the whole answer. I think there are some other things we need to focus on.

In addition to that, as chairman of the committee—and I hope I can get the members to agree—I intend to draft some language to go to the SBA to suggest the direction in which they would move in several areas. By way of illustration—it is nonsensical for a business to go out and get a contract and the contractor will say, "We cannot finalize this until you are 8(a)," and the SBA is saying, "Well, we cannot make you 8(a) until you have the contract." I think we need to send some language over to Mr. Cardenas that says in those instances where a business that meets the criteria of 8(a) found a contract on its own, and is ready to move, and if you examine that contract and find it to be a meritorious one, then 8(a) certification should take place immediately. It is just that simple.

Mr. CALERO. Right.

Mr. MITCHELL. So I will be consulting with the other members of the committee in terms of the drafting of that letter. But how much power or persuasion it will have I don't know.

Mr. CALERO. I would like to add one more thing if I may. There are an ample number of resources available—this is my personal belief, and has proven out in the past with some of our members, so I am confident in what I am saying—free services through not only MBDA but also through the Small Business Administration and other departments of Government and to include the private sector, which has three training sessions or programs ongoing for the small minority entrepreneur, that the resources are available to provide the guidance for the 8(a) contractor to develop a plan, interim plan of, say, 3 to 5 years, to help himself or herself graduate from the dependency of the 8(a). It can be done. People are saying it may need $x$ amount of time, 10 years, 5 years, or should be fluctuating. With a good, intelligent, well thought out plan anything, almost, can be achieved. And I am confident, if the right pool or mix of resources are brought together and made available, that our people—again I refer to the minority community—can realize their own right to success.

Mr. MITCHELL. I generally agree. In the mix there has to be access to risk capital. That is the most important thing.

Just before I ask our colleagues to raise some questions, I want to thank all of those who have been with us all day, and all those who testified. You come to a hearing and testify and say, "Here are three members of the committee listening to me—how important is that?" There is an official reporter who has taken down these hearings, they will be printed, they will be distributed to all of the members of the House Small Business Committee as a report of this field hearing. In addition, we generally print enough copies so that all the Members of Congress, all 435 Members, can avail themselves of what transpired in this hearing.

I personally have found it a very good learning experience—gotten a little angry at times. But I have learned to be judicious since I have become chairman of the committee. But I just wanted to let you know the result of this hearing will be widely distributed throughout the entire House of Representatives.

Congressman Crockett, do you have a question or a closing statement?

Mr. **Crockett**. I have no questions, Mr. Chairman. But I agree it has been a most beneficial hearing. As a comparatively recent member of the committee, it has been a learning experience for me. I feel that I understand a little bit more about section 8(a) and the problems that are presented to small business than I knew before I came to Los Angeles. I will be mindful of that learning experience when the committee meets again in Washington.

Mr. **Mitchell**. I want to personally thank you for participating in the hearings today.

Congressman Siljander?

Mr. **Siljander**. I would just like to say I appreciate all the testimony given by such a good, diverse group of people. I thought it was very beneficial to me.

Second, I intend to write a summary minority report for all the Republican members, so they will be informed of the fine work that was accomplished here. I think the hearings were very beneficial, at least to me, and I am sure to many of the other Members on both sides of the aisle.

I appreciate your coming here. I found this hearing very beneficial. I sincerely appreciate your comments and the way you presented them, candidly.

[Additional material submitted for the hearing record follows:]

### PREPARED STATEMENT OF AL DAVIS, PRESIDENT, SOURCE PUBLICATIONS, INC., EMERYVILLE, CALIF.

Mr. Chairman and Members of the Committee: I would like to express my appreciation to you for allowing me to enter into testimony some comments in support of the Small Business Administration's 8(a) program, which I read, the new SBA Administrator and some Congressional officials would like to see cut back if not totally eliminated.

First, let me state that I am a small 8(a) contractor in the San Francisco Region. I have had one 8(a) contract which I got on my own. This contract was completed in September 1980.

The majority of minority firms in the 8(a) program are companies such as my firm with fewer than 15 employees, and most of us are in the manufacturing and service categories. We are the same caliber of small firms that General Dynamics, Inc., Hughes AirCraft, United Technologies, and others started out to be. These firms started out with less than 25 percent of their business being done with the government and today they do over 80 percent of their business with the Federal Government. These firms started as small military, defense, and weapons manufacturers for the Department of Defense and today are a few of the larger defense Prime Contractors. These big firms did not become large because some Congressmen and Administrators decided to regulate their growth, but became large because some Administrators, legislators and the judicial system made the provision for them to become large and dependent upon government contracts to support a supply side economy. Their argument has always been "provide us with greater access and contract awards," and we will contribute to a low unemployment rate by putting people to work, and we will take our profits, reinvest in new technologies, and improve the quality of life. Although this has a philosophical ring to it, it has a great deal of soundness. Majority corporations have always hired and recruited nonminorities and trained them to do technical jobs when they are incapable of doing so. This factor contributes to low unemployment among non-minorities, and high unemployment among blacks, and other minorities.

The Small Business 8(a) Contractors Program is and can be, the same for black and other minority busineses if the SBA and Congress will aide the program in its growth as it has done for the non-minority government contractors. If properly structured and administered, the 8(a) program can contribute to annual savings to the government of over 1 billion dollars in retained unemployment benefits.

Admittedly, there has been misuse of the program by some individuals. The same can be said of the Lockheed C-5 cost over runs and the GSA nightmares of a few years ago. But because of the scandals and cost over-runs, no one dissolved Lockheed's additional contracts and no one has suggested abandoning the GSA. What has happened to the program involving both of these agents is that new systems were installed to help prevent further misuse.

Let's not throw the baby out with the water, rather let's remove the baby, change the water, and provide for a cleaner wash.

The SBA 8(a) program is as essential to minority business enterprise as is the continued support of the government to Chrysler and as Lockheed is to economics and employment stability in this country.

The Small 8(a) firm is in the vanguard of job creation in the areas of technology, science, and economy. Although these firms lack capital, they possess the capacity to receive capital investment and translate such to a highly productive economy through increased productivity of technical products, goods and services. Without the 8(a) program the federal government is inviting higher unemployment and a greater drain on the federal budget.

Rather than suggesting reduction or elimination of the 8(a) program, I would recommend that a fresh new look be taken at the 8(a) program. An analysis should be made of the most expedient way of marrying small 8(a) high tech and software firms with major military defense prime contractors, both as joint ventures and major subcontractors. The result of such an action could well be that small 8(a) firms could be put into a position to enter an international market, able to acquire other firms, and become major employers of the unemployed.

The proposed graduation plan as submitted and published in the Federal Register leaves much to be desired. I even question the constitutionality of such a proposed change.

I question the wisdom of such a proposed change to the Small Business Act, particularly as it relates to the President's notion of how to reduce inflation and high interest rates through a trimming of federal spending and reduced taxation. The actions of the SBA Administrator and those who support his action are not in keeping with the President's economic program, but rather, are being guided by some mistaken notion that the 8(a) program is a "social" program. For those who care to research the reason that the 8(a) program came into existence will find that it was done purely on the basis of economics to support a supply side economy that was needed by big business to maintain a more rapid response to military supply need.

Rather than trying to push a graduation program, I would recommend an accelerated program for 8(a) firms that will enable them to employ greater numbers of people. The labor statistics indicate that there is a labor force of some 90 million people in the United States. SBA should establish as its goal the contribution of ½–1 percent of the labor force over a four year period using the 8(a) program as a vehicle to support the President's economic program. Remember, the higher the employment rate, the less government has to spend.

To the Committee, I again express my appreciation for the opportunity to state my case. I would hope that in your hearing you will keep an open mind and take the positive aspects of the 8(a) program and build on those strengths and modify the weaknesses as has been the tradition when government and industry really want to solve economic problems. Government is calling on private industry to help lick the economic problems of this country. We, the small minority business firms, are a part of private industry. SBA cannot cut us off in one breath and ask us to help solve the problem in the next.

I stand ready to respond to any inquiries the Committee may have in the future.

*builders and developers*
*real estate investments*

**BRIGHTON INTERNATIONAL**

*9056 Santa Monica Boulevard • Los Angeles, California 90069 • (213) 274-5431 • (213) 272-9941 • Cable: Brightdev*

July 7, 1981

Honorable
Congressman Parran Mitchell
Chairman
Small Business Committee
200 So. Spring Street
Room 350
Public Work Building
Los Angeles, California

Dear Mr. Chairman:

I learned of your hearing this morning at 7:30 on the radio, and had I had advance notice, I would be at your hearing personally.

You can see from the enclosed letter to Messrs. Volcker, Regan and Pratt, a specific situation that not only affects me as a small businessman, but also the employment of approximately 200 persons.

I would appreciate your reading my letter to Messrs. Volcker, Regan and Pratt into the record.

I would be pleased to come to Washington to testify if so requested.

Sincerely,

BRIGHTON INTERNATIONAL
DEVELOPMENT CORP.

J. R. Bolker

J. R. Bolker
President

JRB:no

cc: Representative Mervyn Dymally
    Representative Julian Dixon

STAFF-9051

builders and developers
real estate investments

BRIGHTON INTERNATIONAL

*9056 Santa Monica Boulevard • Los Angeles, California 90069 • (213) 274-5431 • (213) 272-9941 • Cable: Brightdev*

June 8, 1981 (Dictated 6/6/81)

Mr. Paul Volcker
Chairman of the Board of Governors
Federal Reserve System
Washington, DC 20551

Mr. Donald Regan
Secretary
Department of the Treasury
Washington, DC

Mr. Richard T. Pratt
Chairman
Federal Home Loan Bank Board
1700 "G" Street, NW
Washington, DC 20552

Dear Messrs. Volcker, Regan and Pratt:

In theory, your belief in high interest rates as the solution to inflation, may satisfy you as an economist, but I am a businessman and the reality of this policy is as follows:

I planned an immediate entertainment enterprise which would employ over 200 persons, pay a lot of taxes, and fill a need of a 300,000-person trading area. To date, I've invested approximately $50,000 of my own funds, in front monies, but have been unable to borrow the $1.8 million even though secured and with my personal guarantee, for a 5-year period. I would be able to secure this financing were I willing to agree to an interest rate of 1½% over prime (22%) and 2 points, or approximately $400,000/year interest. Four months ago I had secured a commitment at 15% interest plus 1 point, but you wished the prime rate to increase, so the commitment was withdrawn, and they were out of the market until you settled the prime rate; as a result of the increase in the prime interest rate, four weeks after my securing the 15% + 1 point commitment, I was, instead, offered 18-3/4% interest + 3 points, by the very same lender. Refusing to accept these terms at what I considered to be a prohibitively high rate, I was offered by still another bank, five weeks later, the 22% + 2 points referred to above.

Messrs. Paul Volcker
        Donald Regan
        Richard T. Pratt
Page 2.
June 8, 1981

Prime rate had started to move down 3 weeks ago and we all thought that it would continue in this downward trend, but you put a stop to this.

Your high interest rate theory is causing our government to pay more interest, and thus more otherwise-available money is taken out of the economy. Further, it is my risk, my personal guarantee to the bank, my creativity, and my long hours and hard work, all of which go into the planned enterprise. Why do you force businessmen with sound projects to be subjected to interest rates that make a project uneconomical? When will your impossible theory be shelved and, in its stead, one substituted which will enable a realistic businessman to achieve his goals? You cause plans to be frustrated, and this equally frustrates one's incentive. But I refuse to allow your theory to discourage me. I continue to trust that realism will overtake you in your pursuit of inflation, and that you will listen to reality and cause interest rates to be reduced.

Sincerely,

BRIGHTON INTERNATIONAL DEVELOPMENT CORP.

J. R. Bolker

J.R. Bolker
President

JRB:ml

P.S.
Do you really believe that financing (a cost of doing business) is not added to the final product, thus fueling inflation by requiring that consumers pay that much more than they should for consumer goods? YOU ARE FUELING INFLATION. YOU ARE DENYING HOME OWNERSHIP. BECAUSE OF HIGH INTEREST RATES, YOU ARE DESTROYING THE SMALL BUSINESSMEN'S CHANCES.

cc: President Ronald Reagan
    Mr. William Simon/U.S. Senatorial Business Advisory Board
    Senator Bob Packwood/Republican Senatorial Inner Circle
    Senator John Heinz
    Norwalk Mayor/City Council
    Staff ✓
    Family
    Editors/Torrance Daily Breeze
            Norwalk Herald American
            Downey Southeast News

SMALL BUSINESS ASSOCIATION OF CALIFORNIA
"SAN FERNANDO VALLEY CHAPTER"
*Delegates To White House Conference*

*Samuel P. Dubreville*
*Chairman*
*Sam H. Arellano*
*Co-Chairman*
*Sam F. Arellano*
*Co-Chairman*

7 July 1981

Congressman Parren J. Mitchell
Chairman, Small Business Committee
U.S. House of Representatives
Washington, D.C. 20515

Subject: Small Business Committee Field Hearings
Los Angeles, California

Dear Sir:

My name is Sam H. Arellano; I am the Senior Partner of a small business, A & A Engineering Enterprises. My partners and I are very active in the small business community. I am Co-Chairman of the Small Business Association, San Fernando Valley Chapter, and a member of the Brain Trust. I was also a delegate to both the White House Conference and the State Conference on Small Business.

The following are a few recommendations I feel are extremely important to the small business community:

Federal tax policy should be revised so every element of the business community pays and equitable portion of the tax burden. Small business is the middle class, and like the middle class bears the greatest tax burden. Corporate tax rates have not kept pace with inflation, which has doubled price levels in the last few decades. As a result, small firms are forced into higher tax brackets, draining retained earnings and inhibiting growth. The very small and family held businesses are especially hurt by the inequity of Federal tax policy.

The unavailability of capital is the single most inhibiting factor in the growth of small business. Since it is the small business that is the first to feel the impact of unfavorable economic conditions and are, therefore, the first to experience cash flow problems, the availability of capital determines the success of their business. Many times the success of a small business

Congressman Parren J. Mitchell
Chairman, Small Business Committee
Page 2
7 July 1981

hinges on the ability to survive a few difficult months. Short term, low interest loans are needed by small business to survive these difficult times. Small business cannot afford to borrow at high interest rates since most often interest rates exceed net profit. Banking institutions should lend 90 to 120 day notes at not more than 8% interest. Government subsidies should be made available to banking institutions to recover the balance of the interest rate normally charged.

Public Law 95-507 prohibits rather than encourages minority business people from entering the mainstream of the economy. The law has been misinterpreted to actually exclude minority firms without 8(a) certification from fair participation in set-aside programs. The only minority firms that do benefit from Public Law 95-507 are those with 8(a) certification. Furthermore, Public Law 95-507 sets a quota for allocating contracts to minority vendors. Once the quota is filled, contracts are no longer placed with minority vendors. This again prohibits the broad spectrum of minority suppliers ability to participate since it is likely that the prime contractors will fill their quota with minority vendors already established with their companies. In both instances the majority of minority firms are hindered by Public Law 95-507.

Thank you for the opportunity to present these ideas to you.

Very truly yours,

Sam H. Arellano
Co-Chairman,
Small Business Association of California
San Fernando Valley Chapter

SHA:aa

Mr. **Mitchell**. On that note, the hearing will now stand adjourned.

[Whereupon, at 4 p.m., the committee adjourned, to reconvene subject to call of the Chair.]

# SMALL AND MINORITY BUSINESS IN THE DECADE OF THE 80's (PART 1)

---

SATURDAY, JULY 18, 1981

House of Representatives,
Committee on Small Business,
*Chicago, Ill.*

The committee met, pursuant to notice, at 10:20 a.m., in room 2541, Dirksen Building, 219 S. Dearborn, Chicago, Ill., Hon. Parren J. Mitchell (chairman of the committee) presiding.

Mr. Mitchell. Good morning. This hearing will now come to order.

I have an opening statement which I will submit in its entirety for the record and, in order to expedite time, I am going to just make some summary points from my opening statement.

When I assumed the chairmanship of the House Small Business Committee in January I indicated that I thought it would be very necessary for the committee to go out to the field, go into various sections of the country to hear people in an attempt to determine how these programs are really working, the various programs for minority business.

I often felt that when we have oversight hearings in Washington, while it is true that some people cannot afford to come into Washington to testify, very often we exclude the possibility of people testifying because they simply cannot afford the transportation cost, hotel rooms, and so forth.

This is the second such hearing that we have had. The first was in Los Angeles, and it was a very productive hearing. I am delighted that it is Chicago, the second. I have been in Chicago many, many times and I have many, many good friends here.

Our third hearing is scheduled for Arizona, and the fourth hearing this year will probably be in Atlanta. I think that is the final decision.

It is most important that we have these hearings because, as you know, the present administration has embarked on an economic program, one of the salient points of which is reduction of Federal spending.

We have had substantial cuts in Federal spending in the Small Business Committee and in the Congress itself. I am most anxious to find out the possible impacts of those cuts.

We must, of course, always try to protect small businesses because they are the backbone of our country. In addition to them, minority businesses, which are really just beginning to get a foothold, must be totally protected.

I should also like during the course of these hearings to try to ascertain what if any has been the impact of some of the policies initiated by the new Administrator for Small Business, Mr. Michael Cardenas.

As you know, there has been a moratorium imposed on 8(a) certification; there have been a number of other initiatives by Mr. Cardenas that I don't particularly like; there is an attempt to force-graduate some of our firms out of the 8(a) program. And I hope during the course of this very long hearing we will be able to get some assessment from witnesses with regard to the recommendations proposed by Mr. Cardenas, the Administrator for SBA, most of which recommendations I do not care for. That's putting it mildly. Most of which I bitterly oppose. That's a better way to do it.

I am delighted that we have two very distinguished members of the House Small Business Committee with us this morning. I am just very, very pleased that the Honorable Gus Savage joined the House Small Business Committee, and he must be commended for recommending Chicago as the site of this hearing and for the very excellent assistance he and his staff have given in developing today's hearing.

We also have another very distinguished Representative serving on the House Small Business Committee, the Honorable John Fary. This is your first year on the committee and certainly he has performed well, done more than yeoman service, and we are just delighted.

In fact, this is the first year for both of these gentlemen and I would like to commend both of them openly and publicly and frankly for the kind of contributions they have made to the work of the House Small Business Committee.

My entire opening statement is submitted officially for the record and will become a part thereof.

## OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Good morning. On behalf of my colleagues of the Small Business Committee of the U.S. House of Representatives, I welcome you to the second of four field hearings this committee will conduct throughout the United States. I am indeed pleased that the city of Chicago has been selected to be a part of these series of field hearings. My distinguished colleague, the Honorable Gus Savage, must be commended for recommending Chicago and for the excellent assistance in developing today's hearing. Chicago also has another distinguished congressional Representative on the Small Business Committee, the Honarable John Fary. This is the first year in which these gentlemen have served on the committee and I would like to commend them for their superb job performance.

In January of this year—1981—I was elected to chair the Small Business Committee of the U.S. House of Representatives. One of my first actions was to institute a policy for this committee to conduct at least four field hearings throughout the United States. There are two primary reasons for such policy. First, I have been in Congress for 10 years and during this period, I have heard excellent testimony from small business owners who were able to afford the high cost of traveling to Washington. Far too often, however, many small business owners cannot afford the financial burden associated with testifying before Congress in Washington.

As a result of this, my colleages and I have not been privileged to the excellent ideas of the many small entrepreneurs throughout this Nation. Second, hearings in Washington are necessary. Congress must be able to solicit information from the administration's policymakers on how they are implementing laws passed to benefit the citizenry. Throughout my 10 years in Congress however, I have witnessed a void between the laws passed by Congress and the assistance actually received by the intended beneficiaries. Thus, field hearings are necessary to ascertain the effectiveness of the administration in carrying out the mandates of Congress.

Today's hearing will focus on a cross section of problems and opportunities affecting the small and minority business community. Since January of this year, the administration has proposed a new economic recovery program, small and minority business program changes, deep agency budget cuts, and business tax cuts. In view of this, I believe it is imperative that the Congress and especially this Congress, begin a systematic investigation of the impact of such broad new policy directions on the survival of the small and minority business sector of this Nation's economy and on the ability of the Federal agencies to implement the laws of this land.

The small and minority business community is the foundation of this Nation's economic system. More than 98 percent of the commercial establishments in the United States are small businesses. Indeed there are nearly 14 million small businesses in this country. Unfortunately, data suggest the share of output being produced by small businesses has been declining, small businesses generated 43 percent of the aggregate output in 1963, 40 percent in 1972, and approximately 39 percent in 1976. This represents a decline in small business output of approximately 0.3 percent annually. During the same period, large businesses increased its share of output by 2.4 percent representing an acceleration in its market share and aggregate output position. A large amount of evidence is available which supports a theory that this economic concentration results in inflationary overcharges amounting to approximately 9 percent of the gross national product. Small businesses are a victim of this process but the biggest victim is the consumer.

Of parallel significance, the decline of productivity in the American economy is directly related to the decline in the small business sector. A National Science Foundation study reveals that small firms produced nearly 4 times as many innovations per research and development dollar as medium-sized firms and more than 24 times as many as the largest firms in a period between 1953 and 1973. Yet instead of encouraging small business innovation, Federal procurement policy has stifled the incentives for innovation. Through the 1970's, small businesses received less than 5 percent of the Federal research and development funds while the largest firms, which by all indicated research are less innovative, received more than 50 percent of Federal research and development dollars.

In view of these conditions, it is critical that the administration begin to foster policies which will support small and minority businesses. To date, the administration's overall economic recovery blueprint is void of what I consider to be necessary strong policy directions for small businesses and especially minority businesses.

Indeed, the majority of minority businesses in this country are small businesses. Yes, the former businesses are experiencing many of the same problems as their majority counterparts. Unfortunately, however, racism and other barriers to the free enterprise system have placed a heavier burden on the development and maturity of minority businesses. It is for these reasons that in 1978 Congress passed Public Law 95-507. This law is designed to assist and to foster the development of socially and economically disadvantage businesses. Public Law 95-507 recognizes that these businesses are not presently capable of competing with their majority counterparts, and therefore procurement, management, and technical assistance must be provided if the free enterprise system is to truly work for all Americans. In this regard, the 8(a) program was developed as a part of Public Law 95-507 to provide minority businesses with procurement and other business development assistance.

The 8(a) program has been the subject of extensive congressional review and criticism since it's administrative conception in 1968 and statutory formulation in 1978. On May 1, 1981, Mr. Cardenas, Administrator of the Small Business Administration—SBA—announced "new tough policies for the 8(a) program." A moratorium was placed on the admission on new 8(a) firms; 8(a) contracts with a value of $2 million or more must be approved by Mr. Cardenas. Advance payment and business deveopment expense approval requirements have also been restructured. Also, on May 1, 1981, Mr. Cardenas authorized an immediate size standard review of all 8(a) firms "alleged" to be above SBA's definition of small businesses. Program termination procedures will be activated for 8(a) firms found to be above these standards.

In addition to the above, on June 1, 1981, Mr. Cardenas had published in the Federal Register proposed 8(a) graduation regulations pursuant to Public Law 96-481. If implemented, these regulations will limit an 8(a) firm's participation in the 8(a) program to a 3- to 5-year period.

On July 7, 1981, this committee conducted its first field hearing in Los Angeles, Calif. Witnesses provided us with an excellent overview of the vast array of problems and opportunities facing small and minority business.

Today, the witnesses appearing before this committee will continue to enlighten my colleagues and myself on the issues affecting the survival of the small and minority business community. I am confident that at the concludsion of this hearing, we will have a better understanding of how policy decisions made in Washington are impacting the small and minority business community.

I would like to take this opportunity to introduce staff as of this time. These hearings simply cannot be put on without benefit of staff.

To my immediate right is Mr. Major Clark, the staff director on the House Small Business Committee. He became staff director shortly after I assumed the chairmanship in January.

For the minority staff we have Mr. Steve Blackistone and Mr. Bill McGloon.

Also on my extreme right over in the corner there is Mr. Clarence Bishop who is my administrative assistant. We had an engagement in Waterloo, Iowa, yesterday. He has been traveling with me since that time.

We have an extraordinarily long list of witnesses, a potential of some 25 people to testify. I would like to try to establish some ground rules early on in the game if I can.

Almost every one of the witnesses has submitted to us testimony in writing. We would prefer, insofar as it can be done, that persons who have submitted testimony in writing receive unanimous consent to have their testimony incorporated into the hearing record and have about 10 minutes or so to make their formal presentation, summarizing, hitting the highlights of their written testimony. That is not mandatory.

If any witness wants to give his entire testimony, read the entire thing, we will not stop you from doing that. But I am just hopeful that most witnesses will try to summarize in 10 or 12 minutes the highlights of their testimony that will enable us to get some time to raise questions.

We have two opening statements. Congressman Savage, I certainly don't want to neglect you with your opening statement. And Congressman Fary.

## OPENING STATEMENT OF HON. GUS SAVAGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. SAVAGE. As a former small businessman for more than 20 years, and as a member of the House Small Business Committee, I have long been concerned with the problems faced by small and particularly by minority businesses. I am, therefore, truly both pleased and honored that you, Mr. Chairman, and the Small Business Committee have chosen to hold this field hearing today as part of the committee's efforts to examine the problem and concerns of small businessmen and businesswomen and to hear their suggestions for change on a firsthand basis.

So, on behalf of the city officials of Chicago and my constituents of the second congressional district in particular, I welcome you to the major transportation center of the Midwest for business, for Chicago is indeed a major business center, a center which has tremendous potential for the growth of small and minority businesses and is, indeed, the capital of black-owned businesses.

So, Mr. Chairman, you may recall that I asked you several months ago to bring the committee to Chicago and I share your observation that far too often small and minority business owners are not able to travel to Washington to testify before the committee and thus we are not able to evaluate effectively the full array of problems and opportunities facing the small and minority business community in the decade of the eighties. The budget-slashing policies of the Reagan administration are going to impact harshly on small and especially on minority businesses here in Chicago and across the country.

It is clear that we in Congress need to listen to the small business people as they speak out about their concerns, if we are ever to have the healthy small business community that the Nation's economy needs so desperately during the transition of the 1980's.

In recent years, small businesses have been responsible for 86 percent of all new private sector jobs in this country, and they have been responsible for over 43 percent of all the Nation's goods and services. Small businesses are the principal source of innovation in the United States as they have been since World War II. Small businesses work harder to survive because they have to. But instead of helping the small business sector to thrive and grow, Government has tended to neglect it—resulting in unparalleled problems. For it is a documented fact that it is small, not large businesses that suffer most in times of high interest rates and soaring inflation.

Now, thousands of small businesses go bankrupt each year with the failure rate of over 50 percent in the first 2 years of existence. Yet the official White House Conference on Small Business report noted the theory that "priming big business helps everyone because the benefits will trickle down." That theory just does not work. Yet the tax and economic proposals of our present administration are aimed toward big, not small, businesses.

It is vital that we not lose sight of the fact that Wall Street business and Main Street business, though they interact and intersect in many ways, are totally different entities both in practice and in culture.

Small business is different from big business in terms of economic handicaps, financial problems, regulatory burdens, ways of doing business. And the fact that it is small business that strikes at the very core of the American way of life. That way boasts the freedom, the right, and the opportunity for an individual through hard work, risk, and competition, to pursue success and prosperity.

Now let me just note that in the case of minority small business there is a great need for the Government to be educated regarding the existence, activities, capabilities, interests, and composition of the minority private sector and, more significantly, to realize the need to make these elements with opportunities for business and economic expansion.

In 1975, Irving Kristol wrote in the Wall Street Journal that the small business entreprenuer was the "forgotten man" of American politics. Five years later, small business is emerging as a growing political force.

Small business keeps our country working and growing. Its success is important to all of us—for we are as dependent on small business as it is on us. We must continue to seek new ways to help small and minority small businesses prosper and grow, and we must keep a finely tuned ear to small business problems and concerns.

Again, Mr. Chairman, I am proud that our hearing here today is part of the obvious commitment by the Small Business Committee, under your leadership, to go out into the field and talk with those small and minority business people who are so greatly affected by the policies and regulations set in Washington.

I thank you.

Mr. MITCHELL. Thank you very much for your opening statement.

Congressman Fary?

## OPENING STATEMENT OF HON. JOHN G. FARY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Fary**. Thank you, Mr. Chairman. Briefly, Mr. Chairman, I wish to welcome you to our great city. We in Chicago are deeply honored by your presence here today. You are not only the chairman of our very important full committee but also our Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems. I am also honored to serve with Congressman Savage on the Subcommittee on Tax, Access to Equity Capital and Business Opportunities, of the full Committee on Small Business.

You are one of the foremost national experts in this area. Your tremendous knowledge of small business needs, banking practices, relating small businesses, job creation, EDA and HUD policies affecting small businesses, handling of ventures, franchising, access to equity capital is profound.

I know we shall all benefit by your presence here today.

As we all know, the President proposed a 10-5-3 accelerated depreciation plan. This is a simplified method of classifying investments as 10-year writeoffs: housing and buildings, 10 years; 5 years for machinery and equipment; 3 years for autos and trucks. The problem is that this 10-5-3 plan does not help many small businesses, as we shall see. And I will conclude with that and thank you, Mr. Savage, for permitting me to participate with you and thank all of you people that came here this morning, leaving their homes and abandoning the beautiful beaches and the other places of recreation we have to participate.

I am sure that your presence here will be very, very beneficial to us and also to yourself. Thank you very much, Mr. Chairman.

Mr. **Mitchell**. Thank you very much, Congressman.

Our first witness is Frank Brooks, who is president of the Chicago Economic Development Corp.

While you are working your way up to the witness table I want to publicly thank the Chicago Economic Development Corp. for the enormous assistance it has given me as an individual Member of the Congress throughout the years.

When I first came to Congress 10 years ago I called together a number of ongoing groups related to minority and small business and said, "Look, I need your help. I need your advice. I need your counsel." And throughout the 10 years this corporation has really been significantly beneficial to me as I have attempted to move us toward economic parity and I want to publicly thank the corporation.

We have a copy of your prepared statement. You may proceed as you wish, either reading it in its entirety or submitting it for the record and dealing with the most salient points therein.

## TESTIMONY OF FRANK BROOKS, PRESIDENT, CHICAGO ECONOMIC DEVELOPMENT CORP.

Mr. **Brooks**. Thank you, Congressman Mitchell, and I will do the latter; that is, make comments.

Mr. **Mitchell**. Then, without objection, the prepared statement of Mr. Frank Brooks will be submitted for the record in its entirety.

Mr. **Brooks**. To the members of the Committee on Small Business and especially to you, Congressman Mitchell, I would like to say good morning and welcome to Chicago.

CEDCO, the Chicago Economic Development Corp., is pleased to provide testimony on the problems we see small and minority businesses encountering in the decade of the eighties and make some recommendations for strengthening their increasingly shaky structures.

CEDCO is a private, nonprofit business development organization established in 1965 and fully and closely completing its second full decade in service for the minority business community in the area of Chicago. We are funded by Federal, city, and State contracts and grants and private contributions.

Service over the years has taken the form of financial management, management consulting, contract procurement, technical assistance, construction contractor assistance, and education and training.

CEDCO has provided more than 800,000 hours of assistance to approximately 33,000 clients, developed about 1,300 financial packages in excess of $82 million, and procured about 1,500 contracts worth another $90 million. In addition, they have saved or created more than 4,900 jobs worth in excess of $37 million.

Before proceeding, I would like to make a few points on small business. Nearly 97 percent of all businesses in the United States are considered small. Second, small business accounts for 43 percent of the Nation's gross national product. Third, small business provides 58 percent of total U.S. business employment. And, fourth, small business creates more jobs than any other sector of the economy. I am sure you have heard that a number of times.

I would now like to look at the minority business sector in particular. Minority business may, as someone from the present administration said recently, be closer to economic parity than we have ever been. Given some undeniable gains made by minority business enterprise, that may be true. However, when one looks at how far we still have to go, statements of that nature must be regarded with suspicion.

What are the facts? Seventeen percent of the population is minorities. However, they own about 4.4 percent of all the businesses, with total gross receipts of about seven-tenths of 1 percent.

What do those terms mean in dollars? They mean that minority businesses of all types recorded gross annual receipts of $16.6 billion last year while gross annual receipts recorded for majority businesses were $2.38 trillion.

The majority's economy is doing approximately 99.9 percent of the Nation's business and the thesis of competitive disadvantage when framed against these statistical backgrounds hardly argue—or are easy to argue against.

U.S. census data places gross income of the minority community at approximately $200 billion a year. Our total business receipts, which I mentioned earlier, are $16.6 billion. This means about $183 billion of our income goes directly into the majority business community along with any jobs that this money produces.

Minority business enterprise overall accounts for approximately 500,000 jobs. It is extremely difficult to close the gap to parity when such an imbalance in an economic system is allowed to persist.

With the present administration minority enterprises will be facing a no favoritism policy. This policy could hinder considerably a minority company's ability to subcontract with a majority company. In addition, it also may hinder its ability to subcontract with the Government.

The SBA 8(a) set-aside and direct lending programs are examples of Government assistance vehicles which are in jeopardy and have been discussed lately. I will not make that many comments, Parren, on this issue because there will be a number of comments on 8(a) and Public Law 95-507.

Since its inception, however, the SBA program has aided minority businesses in job development. 32,000 individuals were employed under the program in 1980. That is the 8(a) program. However, measures must be taken to avoid a wholesale dumping of companies as has been suggested by program critics.

If elimination of present contractors cannot be avoided CEDCO supports the case-by-case review procedure suggested by a number of advocates who are familiar with the program.

As for the SBA direct lending program, there is documented evidence to warrant increase and expansion rather than the proposed elimination.

Continuation of organized efforts to avoid a complete gutting of this program is mandatory. The replacement of the critical MESBIC pool funds under this program was a real achievement for the minority business community and its supporters. However, efforts must go forward to induce the Senate Budget Committee to fully reinstate funding and even consider expansion.

I assure this committee that from our experiences minority enterprises will suffer tremendously if any of these SBA programs are reduced or eliminated.

The decade of the 1970's was considered the real launching pad for minority enterprise. This decade saw black business firms with paid employees grow from approximately 22,000 to about 45,000 by the end of the decade. We increased by about 50 percent.

Black firms without employees, though, only grew about 5 percent, to about 195,000.

The gross receipts of the approximately 250,000 black businesses which now exist at the end of the decade again total about $16.6 billion. This gross increase is slightly over 50 percent over the 10-year period but if you look at inflation you can see that the growth has been rather much in place, or constant.

The average number of employees in firms with paid employees, in minority firms with paid employees, dropped from six to four, which was a reflection of a large increase in new small companies. We therefore have the correlation where black businesses were able to expand in gross receipts per employee during the 1970's while declining in the average number of employees per firm which meant that the potential of black-owned firms as a source of employment for blacks was weakened.

However, this is not unique for any revolutionary concept. Instead it is considered a shaking out period where many fall by the wayside and more solvent firms survive and take the lead.

In looking to the 1980's CEDCO recommends that we look at three nerve centers within the black community. That is the minority black business community.

First is capital formation, which is the major ingredient to any development. For the 1980's to be of any real benefit there must be two or three times as much capital available as there was in the 1970's. So this again raises the question just where the equity capital needed to finance the development of the firm that we are referring to.

The minority enterprise small business investment companies have been taking a role but, as indicated earlier, they must be increased and the funding must be implemented shortly.

Unless innovative new proposals are forthcoming to address this need, the decade of the 1980's will see a further constriction in this area. We still have no private or public market where capital can be raised for development, expansion, or growth. The 1970's produced one black firm trading in the open market and, as Congressman Savage said, that firm is here in Chicago.

The 1980's must increase this amount drastically. That is why it is unthinkable to reduce SBA programs which assist with capital.

The second area of importance is market selection and penetration. Currently the black business community of the 1970's concentrates its efforts in three particular areas, namely the Government, large corporations, and the minority consumer community.

The strategy of the 1980's should simply be to enlarge this base to include nonminority consumers and the international markets and, at the same time, improve the three areas that they are currently in; that is, Government, large corporations, and the minority consumer community.

Programs are therefore needed to assist with this marketing strategy again, not to hinder the progress.

The third sensitive area upon which we must focus is management. Minority firms still have not developed the management army necessary to carry the black economy to the point of total efficiency. Nor, for that matter, have we produced the entrepreneurs needed to lead the campaign.

There is a need for managers who can acquire and manage companies profitably; there is also a need for the entrepreneurs in stage two for the development of new products, marketing, and innovation.

This second stage will develop through the natural process a second generation of black entrepreneurs.

Again, the point is that programs are needed to assist in management development and entrepreneurial training for minority businesses, not any reductions in any of the program areas.

In closing let me firmly state that minority business in the 1980's must have greater input into the economic thinking of the country.

Minority business and economic thinkers have too long been excluded from the highest levels of decisionmaking in the United States. This exclusion is a tremendous price for us all. In the 1980's we must be involved in the economic decisionmaking process.

I would like to thank the panel for inviting these remarks.

Mr. MITCHELL. And certainly we want to thank you. As per usual, it is very excellent and comprehensive testimony which is exactly what we expect from CEDCO. You have traditionally provided that kind of fine input.

Mr. Cardenas, the Administrator for the Small Business Administration, imposed a moratorium in new 8(a) certification. In hearings before our committee he indicated that there would be some exceptions to the rule, cases in the pipeline. My first question is twofold.

What, if any, has been the impact on your operation of this imposed moratorium and, No. 2, how many cases, do you know of, that have gotten through that have been certified since that time?

Mr. Brooks. I know of no cases that have been certified. I hear that the process is beginning to move now. I know of no particular cases where the actual certification has occurred. But from what I understand the process is being moved and you will have here testimony from SBA; I am sure they will make comments to that effect.

On particular firms in the list of firms that were to have been held up, there were at least two in Chicago. That is Soni-Craft and Abbott Metals. And they both will be making testimony also.

We think, though, in the overall that those firms have definitely been hindered. As far as I know, they have been held up.

Mr. Mitchell. My assumption would be that if they go and identify a contract there somewhere pending and if they don't get prompt certification they are in danger of losing their contract.

Mr. Brooks. Right. I agree with you.

Mr. Mitchell. One of the thorny issues that we have been wresting with in hearings in Washington is the proposed graduation.

Mr. Cardenas had indicated somewhere between 3 and 5 years a firm should become viable and should be able to compete in the open market. I think there is consensus on our committee both on the minority and on the majority side that that is just not workable.

You have been in this business for at least, what, 15 years now; right?

Mr. Brooks. Right.

Mr. Mitchell. Based upon your professional experience, about how long would it take for an 8(a) firm to become viable in the sense that it can fully compete or almost fully compete in the private sector without any Government support.

Mr. Brooks. I would say at the minimum 5 years.

Mr. Mitchell. A minimum of 5?

Mr. Brooks. At a minimum. And probably if you look case by case you wouldn't even find too many examples where they have been successful. Some of the more visible firms like the ones we have talked about, as you talk with them you may raise that same question to them.

There is a strong feeling that there is not a lot of profitability in this, in these contracts as is; that is, most of the funds are going back into labor, materials, and back into the economy.

I am not sure there is that much viability or profit coming out of the deals and, with that in mind, I would wonder whether 5 to 10 would be a more reasonable time. But that is also the reason we mentioned the case by case. I think you have to look at each individual case and I think that the 3- to 5-year blanket recommendation will definitely hinder a number of firms.

Mr. **Mitchell**. As far as I am concerned, that is completely unacceptable.

Mr. **Brooks**. Yes; I agree.

Mr. **Mitchell**. Our own thinking is more toward 10 to 20 years. And I say that only because in your testimony you talked about the critical problem of capital formation, access to the private market. We don't have it.

Mr. **Brooks**. We really don't.

Mr. **Mitchell**. And, frankly, it is my opinion that if even our best firms have graduated, force-graduated, they are going to fail because we haven't done any groundwork in preparing them to get access to the private market.

Toward that end my colleagues on the panel in November or October—I haven't firmed up the date yet—we plan to bring in some 8(a) firms, some non-8(a) firms and representatives of the private market to see how we can begin to work out an arrangement to begin to break into that private market with its venture and equity capital.

Right now we can't do it or we would have some difficulty in doing it because SBA has taken the position that if you get the private capital in then you may no longer have 51 percent ownership and therefore you are no longer eligible for 8(a) status. It is a catch-22 situation which I hope we will address in October or November.

Mr. **Brooks**. It is a catch-22. We, for example, have a MESBIC in our own shop and run into some of those difficulties now. In fact, we are trying to get additional capital for exactly what you are referring to, going to the Ford Foundation which is also looking at this area strongly—some of the private side—and they may opt to put funds into the organization, only not through the MESBIC because of some of the restrictions in it, and may look at it different just putting it into the organization to make it.

But, Parren, I can't help but again indicate you are so much on target as we have been talking about this. $38 million for the entire country for the MESBIC program, and there are very little other ones for the equity side.

If we talk about cutting back the SBA programs, the direct programs, it would be a severe handicap for the minority community, I assure you.

Mr. **Mitchell**. Thank you.

Congressman Fary, do you have questions?

Mr. **Fary**. Thank you, Mr. Chairman.

Mr. Brooks, on page 16 of your prepared statement you state that minority business in the 1980's must have a greater input into the economic thinking of this country. What role do you envision for the Federal Government in this process?

Mr. **Brooks**. Well, not this administration, but in previous administrations there is generally a think tank and, Parren, you may be familiar with those that have been put together for some economic thought on the development of minority enterprise. But generally those are more paper preparation sessions, that is papers are presented on what they feel, or what the leaders or thinkers or heads of organizations feel, should have input into the overall economy.

I think that should be taken to a more formal process where there is a formal body of minority entrepreneurs, minority economists, or minority leaders who have some specific input into the overall Government policies and programs.

I think generally the feeling is that the minority enterprise will work one way or the other or whether—if we are putting money into the MBDA, for example, it will help minority enterprise. I think that is kind of a shortsighted nature.

Minority economic development has been somewhat involved since 1965, as Parren had indicated, in the 1960's. Yet still there is no concise program for minority enterprises as far as I can see in the Government body; that is, capital to be set aside specifically and programs specifically.

I think they come up as administrations come up, and I am thinking about something a little more formal where a body would have some input into the overall thinking of the economy.

Mr. FARY. Thank you very much.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you.

Congressman Savage.

Mr. SAVAGE. Let me ask you, Mr. Brooks, in view of the proposed lower goals set not by this committee, of course, but set by the Small Business Administration, the lower goals for contract set-asides in the 8(a) programing, where the goals are lower for 1982 than for this year, and if that—with a lower goal, and with your criticism of the proposed program of graduation that I also criticize, incidentally, more of a program of dropout rather than graduation—but a lot of that, how, what suggestions might you have to recognizing the lower goal and yet to promote new and additional 8(a) certifications. Do you follow my problem that I pose?

Mr. BROOKS. Yes; except I am not sure that eliminating that lower goal might be the response. From what I understand, the set-aside amount was not reached as it was. Yet still the concept is that we are doing—those firms are doing too much.

Instead of trying to get additional business for the firms that are already in there and, in addition, bring in new firms, now we are talking about keeping a set amount of firms, whatever they are—I think it was 2,000—and in fact keeping or reducing the total amount. And I don't think that makes much sense at all.

I think what we should be doing is keeping those firms in there as Congressman Mitchell indicated, trying to develop them to the point of really being profitable, and that may be a 10-year plan or whatever, and bringing new firms in at the same time.

I don't see any inconsistencies whatsoever. But I think that the reduction or the bottom line goal that you are talking about should probably be pulled out.

Mr. SAVAGE. You don't have any suggestions with regard to operating under the present proposed goals, proposed by the Director of SBA?

Mr. BROOKS. Yes; I think I do have. I am not sure what that one is, though.

Mr. SAVAGE. Well, you see, the problem is if Cardenas proposes a lower goal for contracts for 8(a) certified contractors and you don't have some kind of new graduation program, then obviously there is going to be little room for new 8(a) certifications.

Mr. BROOKS. Right.

Mr. FARY. Well, do you have any suggestions to remedy this?

Mr. BROOKS. Well, that is my point, and his point is that what will then happen is that the old ones will come out and new ones will come in. I am saying if you do it the way he is presenting it, that is the only logical way you could do it. That is you have to spin the old ones out in order to bring the new ones in. I am saying pull off the goals period, at least the lower end. If anything, increase them higher. And merely have a program to look at firms on an individual basis and to have them progress rather than go the other way.

Mr. MITCHELL. Would you yield for just a moment on that?

Mr. SAVAGE. Sure; I will yield.

Mr. MITCHELL. I think there is a very quick and sensible solution to this, at least on a short-term basis, and that is all of the contracts that SBA turns back to the agencies saying they can't find the people to fulfill those jobs, if they would just reconsider their position there you would have openings for another 1,000, 1,500. I hear it all the time. Contract turned back to the Department of Army or contract turned back to the Department of the Interior. And my recommendation on the short-term basis is we get them to rethink this business of turning back contracts to the agencies and, if they rethink it and redo it in a positive fashion, then you have automatically expanded the number of firms that can participate.

Mr. BROOKS. Precisely.

Mr. MITCHELL. Thanks for yielding.

Mr. FARY. Mr. Chairman, I yield all my time.

Mr. MITCHELL. Thank you very much.

Mr. BROOKS. Thank you, Congressman.

Mr. MITCHELL. Good to see you.

Mr. BROOKS. I'll see you again before you leave.

Mr. MITCHELL. Right. These are supposed to be formal hearings, but when I see old friends I can't act in any formal manner. Thanks very much.

Mr. SAVAGE. Mr. Chairman, may I just commend Mr. Brooks for the hard facts in his testimony which I am sure will be very helpful to us and also in the clear commitment and direction of your testimony.

Mr. BROOKS. Thank you.

Mr. MITCHELL. Thank you, sir.

[Mr. Brooks' prepared statement follows:]

# PREPARED STATEMENT OF FRANK B. BROOKS, PRESIDENT, CHICAGO ECONOMIC DEVELOPMENT CORPORATION

(1)

To members of the Committee On Small Business and especially to your illustrious Chairman, Representative Mitchell, good morning. The Chicago Economic Development Corporation is pleased to be able to provide testimony on the problems we see small and minority businesses encountering in the decade of the eighties and make some recommendations for strengthening their increasingly shaky underpinnings.

CEDCO is a private, not-for-profit General Business Service Center, established in 1965 and fast approaching our second full decade of service to the minority business community of the Chicago SMSA. We are funded by federal, city and state contracts and grants, and private donations. Service over the years has taken the form of financial management consultation, contract procurement, technical assistance, construction contractor assistance, and education and training.

CEDCO has provided more than 80,000 hours of assistance to approximately 33,000 clients; developed 1,300 financial packages with in excess of 42.5 million; procured 1,500 contracts worth 90 million; saved or created more than 4,966 jobs, worth in excess of 37 million. In addition, every year since 1971, when CEDCO created the National Symposium On The State Of The Black Economy, we have brought together some of the most informed minority thinkers and practitioners from academia and the small business community; from the public and private sector, both inside and outside government, to analyze, evaluate and make recommendations for achieving economic parity, in what has always been a hostile economic environment for minority entrepreneurs. (As high as the failure rate is for all small business, it's even higher, percentagewise, for minority small business We, therefore, feel competent to share the insights and evaluations to follow.

Before proceeding, lets set the stage for those who neglect to remember and those who simply do not know how important small and minority business is to the American economy. First, nearly 97 percent of all businesses in the U.S. are considered small. Second, small business accounts for 43 percent of the nations gross national product. Third, small business provides 58 percent of the total U.S. business employment. Forth, small business creates more jobs than any other sector of the economy.

Small Business Administration statistics record that -- between 1972 and 1979, 16 million new jobs were created nationwide. Three million jobs were created by expansion of state and local governments. One million -- less than six percent -- were created by the nation's 1,000 largest corporations. The remaining 12 million new jobs out of 16 million -- 75 percent were created by small business. Two-thirds of this amount came from firms with 20 employees or less.

Small business is also responsible for half of the innovation and new technology in this century, including the first jet engine, the helicopter, the automatic transmission, the instant camera, the flexible food packaging pouch (a minority invention) frozen-food packaging, the minicomputer and the gyrocompass.

The record suggests, and on examination we must all agree, there is no more dynamic, competitive, creative element in our economy than small and minority business.

However, recent history does not record that small and minority business has been given as much consideration by government, in either policy or program, as its importance warrants. And when we isolate minorities the picture is bleaker than black.

To fully understand the predicament in which minority business enterprise finds itself and to chart a course for the future, we must look at a host of depressing truths.

Minority business enterprise has been treated shabbily ever since there have been individuals trying to carve a piece of the free enterprise system for themselves. In 1953, Congress decided that small businesses in American were at a competitive disadvantage. They created the Small Business Administration. The same legislation introduced the SBA Small Business Set-Aside Program. Minority businessmen will be forever grateful to Representative Mitchell for that. This program has been a godsend to struggling minority entrepreneurs all over this country.

Throughout the 1970's the struggle continued. The argument was made that minority business enterprise is at a competitive disadvantage in the marketplace. The Office of Minority Business Enterprise was created as a functional office of the Department of Commerce. Attempts to strengthen this program and institute additional ones to further impact our disadvantage were met with charges of reverse discrimination and a Supreme Court case - Fullilove vs. Klutznick. In 1980 the Supreme Court found that there still exists sufficient discrimination against our development and that Congress can authorize programs to help off-set the economic disadvantage.

We may, as someone from the present administration said last week, be closer to economic parity than we've even been. Given some undeniable gains made by minority business enterprise, that may be true. But when one looks at how far we still have to go, smug statements, such as that one, must be regarded with suspicion.

What are the facts? Let's look at the most prominent ones. Data from the 1977 economic census indicates that minorities account for 17 percent of the population... own 4.4 percent of the total businesses...with total gross receipts of seven-tenths of one percent, and employ eight-tenths of one percent of the total U.S. labor force. These figures are not significantly different from 1972 data.

But let's be sure we understand what these statistics say in dollar terms. They say that minority businesses of all types recorded gross annual receipts of $16.6 billion dollars, while gross annual receipts recorded for majority businesses were $2.38 trillion!! The majority economy is doing 99.9% of the nation's business. The thesis of competitive disadvantage, when framed against this statistical backdrop, becomes harder to argue against.

U.S. Census data places gross income of the minority community at approximately $200 billion a year. Our total business receipts are 16.6 billion. This means $183.4 billion of our income goes directly into the majority business community--along with the jobs this much money produces. Minority business enterprise accounts for approximately 500,000 jobs. It is difficult to close the gap to parity when such an imbalance in the economic system is allowed to persist.

Daniel Henson, former Director Minority Business Development Agency, commented on the issue of the growth of minority business enterprise in the summer of 1980, he said, "It is a fact that minority business enterprise has experienced growth; such growth, however, is only as relevant as its parallel relationship to national economic growth. When one looks at the gains objectively, we can readily see that minority business in this country has been marching in place". With that dire observation, we would now like to discuss the viability of minority enterprise in the 1980's . . .

CEDCO's continuous monitoring of the perspectives on the current state of the black economy has led to this most recent assessment of industries and trends which have proven to be areas of growth. It was here the minority business community needed to make an entry. Some of CEDCO's recommendations in past years have included cable television; health systems and health-related areas; electronics; energy management, energy exploration; and various new technologies. Statistics, however, taken from Black Enterprise, Nuestro, Venture and Inc., magazines show the top 400 small and minority business profiles as having different characteristics in their makeup. The top 100 black firms had sales from 5.1 million to Motown Industries' 91.7 million. The top 10 of these black enterprise firms, though, were concentrated in entertainment and phonographic records; petroleum sales (3); supermarkets; construction; publishing and hair care products.

The top 100 B E firms overall had a disproportionately high amount of auto sales and service firms (30); petroleum sales (8); construction firms (9) . . . other areas in number were fast-food restaurants (4); beer distributorships (4); supermarkets (4); and hair care products and cosmetics (4).

Inc.'s first 10 firms had compounded annual growth rates ranging from 181% to 678% with 1980 sales ranging from about $109 million down to $3.1 million for their 100 listed firms. There were 8 microcomputer-electronic communication firms with combined sales in excess of $500 million; the other two firms were in mining, oil, gas, and coal development industries. Nuestro's top 10 Latino or Hispanic businesses had sales ranging from $30 to $105 million. They included 3 manufacturers of wood, food, and footwear products; 2 wholesalers, 2 supermarkets; one merchandiser of family wear; and one meat packer. Venture's profile of their top listed companies were very similar to Inc.'s listing.

This analysis is critical because it gives you an idea of where majority and minority businesses appear to be developing in relationship to potential or actual growth industries. In Chicago, for example, the 1977 survey of minority-owned businesses showed the following:

> There were 3,184 minority-owned firms with paid employees -- 2,006 were Black; 341 Hispanic; and 794 Asian or American Indian . . . over 65% of these firms were in the retail and selected service areas . . . construction, transportation and public utilities were third and fourth; finance, insurance and real estate were fifth; manufacturing sixth, and wholesale trade was seventh or last.

Because Chicago's minority businesses are largely concentrated in retail and selected services industries, there were significant losses during the period between 1972 and 1977 as a result of inflation, tight credit, unemployment and recession.

Despite these circumstances, Chicago's Black and Hispanic businesses both showed an increase in total gross sales in 1977. Thus, what we have seen occur is the loss of a number of marginal minority firms, with the survivors having larger sales and hopefully increased profits. This is also consistent with CEDCO's current thrust of spending more time with fewer firms that have strong possibilities of success. The Minority Business Development Agency, which funds CEDCO, has also taken this direction with their assistance to minority business enterprise.

With the present administration, though, minority entrepreneurs will be facing a "no favoritism policy". This abolishment of affirmative action could hinder considerably a minority company's ability to subcontract with a majority company. Because of Reagan's theory of improving the general business climate, implementation and monitoring of minority assistance programs may falter; and, therefore, Black entrepreneurs might not be getting as many contracts as they had been during previous administrations.

The SBA 8(a) set-aside and direct lending programs are examples of government assistance vehicles which are in jeopardy. Since its inception in 1965, the 8(a) program has aided minority business and job development. Thirty-two thousand individuals were employed under the program in 1980. However, measures must be taken to avoid a wholesale dumping of companies as has been suggested by program critics. If elimination of present contractors cannot be avoided, CEDCO supports the case-by-case review procedure suggested by a number of advocates familiar with the program.

As for the SBA direct lending program, there is documented evidence to warrant an increase and expansion -- rather than the proposed elimination. Continuation of organized efforts to avoid a complete gutting of this program is mandatory. The replacement of the critical MESBIC pool funds under this program was a recent achievement for the minority business community and its supporters. Efforts must go forward to induce the Senate Budget Committee to fully reinstate funding and consider expansion.

After completing a full decade of "Black Capitalism", it is appropriate to assess the state of minority business enterprise and recommend directions for black entrepreneurs to take in the decade of the 80's.

The 70's brought with it one of the worst downturns in recent history. There are also those who believe we are now in the throes of a recession which has not seen its worst days. Despite these barriers, the 70's showed the capacity for survival of black business in this country.

The decade of the 70's saw black business firms with paid employees grow from approximately 22,000 in number to approximately 45,000 by the end of the decade. We increased by about 50%. Black firms without employees, though, (a category which includes self-employed professionals and craftsmen and family-run small business) only grew about 5% to 195,000. The gross receipts of the approximately 240,000 black businesses which now exist at the end of the decade total about $9.0 billion. This is a growth increase of about 50% over the 10-year period of the 70's. But, inflation during the same period was slightly higher than 50%, resulting in a small drop in "constant dollar" income after the adjustment for inflation. During this same period, employment by black businesses increased only about 7% to approximately 180,000 full- and part-time workers. The average number of employees in firms with paid employees dropped from 6 to 4, which was a reflection of the large increase in new small companies. We, therefore, have an interesting correlation whereby black business was able to expand in gross receipts per employee during the 70's while declining in the average number of employees per firm, which meant that the potential of black-owned firms as a source of employment for blacks was weakened.

Now you might say this doesn't sound accurate! What about the companies which are listed in Black Enterprise as the top 100 companies we discussed earlier. Aren't these companies producing jobs? Well, in fact they are . . . but the interesting observation is that despite the vast differences in size between black and white businesses in this country, black firms are in many ways reflective of the general economy. Two percent of black-owned firms with paid employees accounted for 40% of gross receipts, the top 14% accounted for more than two-thirds of the total gross receipts, and the bottom 50% accounted for only 8% of the gross. These distributions are very similar to the comparisons of big business to small business in the general economy. So the B E 100 companies are providing jobs . . . the process, though, is just too time consuming.

For example, a further assessment of the B E top 100 companies notes that the first listing, which was in 1972, showed these companies with sales amounting to $459 million. This year's listing which reflects sales for the year 1980 amount to $1.5 billion compounded growth rate from 1972 to 1980 exceeding 10% annually, which, of course, has exceeded inflation. In 1972 you could have been listed with sales of $1 million. The most recent listing required sales of $5.2 million. One-half of these firms had sales of over $10 million.

Diversification in types of businesses were reflected in the B E 100. The types of business practiced by black-owned firms overall, though, were essentially consistent. Most of the black businesses that were formed were primarily in general services with the retailing category next in line. About 14% of the black firms in the 70's were in production-oriented industries, primarily in manufacturing and construction. This industry continued to offer the best opportunity for growth. There were only two industries in fact in the 70's where gross receipts (after inflation) increased from 1970 to 1980. They were manufacturing and wholesaling!

Another, and less generous analysis of the accumulated census statistics for Black-owned enterprises is as follows:

1. The majority of Black-owned firms operated as sole proprietorships in 1977; 219,990 or 94.3%. This group accounted for 55.7% of the gross receipts. Of the total number of firms, 8,915 were partnerships, accounting for 11.1% of gross receipts.
2. Black-owned firms with paid employees accounted for 17.3% of the total number of firms and 74% of gross receipts
3. There were 113 firms with 100 employees or more of .3% of the total number of employer firms, and they accounted for $1 billion in gross receipts.
4. Those Black-owned firms with gross receipts of $1 million or more accounts for 29.8% of the total gross receipts but only .3% of the total number of firms. Forty-one percent of the firms had gross receipts of less than $5,000.

To sum up, in 1977 black firms were concentrated in the less profitable sectors of the economy, produced almost no jobs to help improve the high rate of unemployment, and too many had gross receipts that were slightly below the poverty level.

As had been suggested earlier, for minority businesses to make larger gains in the decade of the 1980's, they must diversify into the growth industries. And strategies for change must recognize two additional realities: (a) the United States of the decade of the 1980's will not and cannot be the United States of the 1960's and 1970's; and (b) the fundamental and unique problems facing minorities in the last decade, the lack of access to capital markets and underdeveloped management skills, are the same critical problems to be faced in the 1980's.

In looking ahead to the 80's, we must, therefore, concentrate on three nerve centers within the black economy. First is capital formation, which is the major ingredient to any development. For our 80's to be of any real benefit, there must be two to three times as much capital available as there was in the 70's. This again raises the same questions of the 70's. Just where is the equity capital which is needed to finance the development that we are preparing ourselves for? The MESBIC community, of course, did a fine job in the 70's. It's expected that they will be productive in the 80's, regardless of the latest budget reduction it suffered as a result of Reagan's budget cutting spree. We truly need additional and hopefully larger sources of capital, to be effective.

Unless innovative new proposals are forthcoming to address this need, the decade of the 80's will see a further constriction in this area. A certain strangulation of many otherwise viable enterprises is inevitable without development and adoption of this most critical lifeline to minority enterprise development.

There is still a definite need for investment from the large base of discretionary income in the black community, back into the growth of our economy. We still have no private or public market where capital can be raised for development, expansion or growth. The 70's produced one black firm traded in the open market. The 80's must increase this amount drastically. The need is now for that often discussed national equity fund which accumulates the little (but increasing larger) extra income of blacks to invest in the black economy for purposes of capital appreciation. An interesting article in the current issue of Dollars and Sense magazine indicates there are approximately 65,000 black church edifices in the country, with an estimated total value of $10.2 billion. There are also about 20 million black Americans who are religious or about 15% of the total religious body in the country. Blacks contribute about $1.7 billion annually in plate offerings. The potential of this relatively untapped resource must be explored as we seek practical alternatives to our plight.

The second area of importance is market selection and penetration. Previously, the black business community of the 70's concentrated its sales efforts in three particular areas namely: 1) government, 2) large corporations, and 3) the minority consumer community. The strategy for the 80's should simply be to enlarge this base to include 4) non-minority consumers and 5) international markets, and at the same time do a better job in the three current areas.

The third sensitive area upon which we must focus during the 80's is management. We still have not developed the management army necessary to carry the black economy to the point of total efficiency. Nor have we for that matter produced the entrepreneurs needed to lead this campaign, and let me point out that I clearly define the needs into two separate categories -- managers and entrepreneurs, because they are both essential yet not necessarily the same.

There is a need for managers who can acquire and manage companies profitably. This management process, let's call it management transplant, occurs when we are able to entice qualified minorities to exchange middle-management positions with big business for top-level positions with growing minority businesses.

The entrepreneur is more essential for stage two with the development of new products, marketing and innovation. This stage will develop through the natural process of the second generation of black entrepreneurs, the increased number of business school graduates, and, in general, the interest that has been growing in the black community towards business ownership.

In closing, let me firmly state that we see the decade of the 1980's as one of the most challenging periods for minority business enterprise. The future appears to hold times of great stress and challenge. It will be a time to test the individual's ingenuity and commitment to entrepreneurship . . . his willingness to reach down within himself and reach out to his resources . . . to come together with his peers and create networks and alliances that will do for him what he can't do for himself. Formally, it must be a time when working relationships between the minority business sector and private industry are effected where the partnership is based solely on mutual interest.

Minority business in the 1980's must have greater input into the economic thinking of this country. Minority business and economic thinkers have too long been excluded from the highest levels of decision-making in the United States. This exclusion is a tremendous price for all of us. In the 1980's, we must be involved in the economic decision-making process . . . you know the old saying is true: one learns by doing.

Mr. MITCHELL. Our next witness is Mr. Paul King, the director of the National Association of Minority Contractors. As always, Mr. King, it is a pleasure to see you, sir.

Paul also has worked with me for at least 10 or 11 years and I am the better off because of the counsel and assistance that you have given me.

## TESTIMONY OF PAUL KING, DIRECTOR, NATIONAL ASSOCIATION OF MINORITY CONTRACTORS

Mr. KING. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I would like first of all to take your latter option and suggest that the 23-page prepared statement and the 4 attachments that I have submitted, 1 being a communication from the Army Corps of Engineers, 1 a copy of a testimony that I presented to this Small Business Committee in 1974, and 2 letters from 8(a) firms, Umstead Construction and Quality Coatings, be submitted in total for the record and I will then highlight aspects of my prepared statement.

Mr. MITCHELL. Without objection, the entire prepared statement and attachments are submitted for the record.

Mr. KING. Mr. Chairman, I want to defer to your strong national leadership and commend our local Congressman Savage for bringing these hearings here to Chicago. Illinois submits probably in the top 5 of the 50 States resources to the Federal Government in

Washington, yet we get back probably 46th or 47th in terms of resources, and I am very proud and pleased to have my own Congressman where I live taking the lead in trying to bring back some resources to Illinois and to Chicago. And to Congressman Fary, I am extremely pleased to see you here today and to meet you. I corresponded with you 2 months ago on a matter affecting small business and I am sure it got lost in the paperwork, and now that we have had a face-to-face look at each other I am sure that when you get back to your office you will check out a communication from me which is 2 months old.

I am testifying today as the director of the National Association of Minority Contractors.

Without going extensively into my background, I think it is important to note that I was appointed to the National Advisory Committee to the Small Business Administration under the Nixon and Ford administrations and also served as special adviser to the Minority Small Business and Capital Ownership Development Office under President Carter.

I have an advisory role on various task force studies and issues with SBA and for the past 9 years I have been dealing with problems not only with the Congress but also items such as 8(a) program and bond guarantee.

I also served as the director of the first federally funded technical assistance program to assist minority contractors in Chicago and I was successful in expanding the original program from a staff of 3 people to one of over 18 persons.

The central theme of my testimony rests on these assertions: If all of the laws, programs, and regulations established to aid small and minority business were properly funded, adequately implemented, enforced with the vigor associated with other Government policies, and given the cooperation of the other agencies, minority contractors in construction and other minority firms could reach viability within 3 to 10 years.

We must, therefore, spend our time not only on getting new activities to be involved in, but we have got to spend a minimum of 50 percent of our time defending and protecting the programs that are already in force.

Now, I think it is very important to note that if you look at all of the programs, the Railroad 4R Act that required the railroads to do business with minority contractors, and they were so recalcitrant that the minority firms in Chicago had to take the railroads to court.

You look at the EPA MBE requirements; 10 percent have to go to minority firms. Yet you have got the metropolitan sanitary district here in Chicago giving tens and twenties of millions of dollars to front companies.

You look at the subcontract requirements of Public Law 95-507. You look at what the National Minority Purchasing Council is supposed to do in the private sector.

You look at the SADBU offices. You look at the Minority Business Development Agency. And then, of course, you look at the resources of ICBO under the fine leadership of Malcolm Corrin.

If you took all of these programs, all of these organizations, couple them with the responsibility that SBA has, under law, if it was enforced properly, Mr. Congressman, there would be none of these problems that we have to talk about today.

Now, my testimony is going to cover about 10 points. I am going to try to give about 1 minute to each of them, which will get to 10 minutes.

First of all, I want to comment on these attacks on the SBA, particularly the 8(a) programs and those programs helping minority business. These attacks are part of a racist, amoral, greedy attack to dismantle programs that help minority businesses.

Some of these people are the very same people who claimed foul during the public works 10-percent set-aside that went with the Public Works Act of 1977, I believe it was. They are against Federal safety programs; they are against women in construction; they are against laws protecting construction workers 'wages.

Now, what I am saying is that Public Law 95-507 gives us the force of law in place and where many of these opponents have been successful in getting regulations diluted such as DOT, they will have a more difficult time with changes in the law.

However, time is running out and if we do not rapidly gain enforcement of the spirit, intent and letter of Public Law 95-507, the opponents of minority business will get around to rendering it ineffectual.

On this business of graduation. I just have to go past my testimony and say that the question you asked Frank Brooks, my good friend who I respect, briefly, I have got an answer for you.

Three to 5 years is inappropriate. It is crazy. It is ridiculous. It has no application to the mandate of the 8(a) program which talks about viability.

It takes 5 years to determine whether a small business is going to remain in place, since you know that 80 percent of them go out of business in the first 5 years. So what you actually need, in my judgment, is somewhere in the area—I don't guess it is coincidental that Parren Mitchell and I agree that 10 to 20 years is appropriate. But I do believe that it has to be done on an industry-by-industry basis. And that is important.

There is no way that you can judge a construction firm that is going to do painting against a trucking firm that is going to try to haul grain.

No firm should be graduated until the firm has received a full level of benefits and help to which it is entitled by law and by SBA policy. Now, that means that first of all it ought to be documented, whether or not a firm got all it was supposed to get during its tenure in the 8(a) program before it is graduated; did it get the proper technical assistance? Did it get the proper contract assistance? Did it get access to low-interest loans?

If they have not gotten that which was promised them when they set up the business plan, then that automatically ought to allow them extra time until they get that.

No firm should be graduated without a review of an independent consultant with knowledge of the industry. What I am saying here is that I do not believe that SBA staff, though committed in some cases, sensitive in some cases, but still I do not believe that they know enough about every business, every industry, sufficient to sit down and make a qualified judgment about whether a firm has reached a plateau of viability and in that case I think that they ought to be, whether they are paid or voluntary consultants, coming in from trade associations, coming in from universities, to look at them on a case-by-case basis with an industry expert to determine whether the firm is situated properly for graduation.

You know, I want to make a comment on this graduation business and its origin. There is some fallacy going on that if you—we remember that this Public Law 96-481 which came along from a southern Senator who was trying to out-conservatize his conservative opponent that did whip him, his idea was that he wanted—it was not right for firms to roost in the 8(a) program and the idea was that if you got some firms out, Congressman Savage, there would be room for other firms to come in. That is an error.

There is no corrolary between the number of firms going out and the number of firms coming in. That is a red herring, in my judgment. There is nothing in regulation, there is nothing that says the certain service given to a firm going out requires the same service of a firm coming in.

You take a firm as sophisticated as Jerry Jones' Soni-Craft, they don't need elementary help. They need procurement assistance, I think, and maybe that which reaches big business like help on low-interest loans. But they don't need anybody to guide them through Federal contracts.

So what you have got to look at when you talk about this graduation bit is what does a firm need. You know, some firms only need in 8(a) the position of being able to negotiate contracts. That is all they need. Other firms need money. Other firms need technical assistance. Other firms need basic help because they are entry level business. And I think it is an error for the Congress to believe that if you put out a firm doing $50 million on the basis that they have exceeded the size limits, that the attention and the help paid that firm is going to be equal in volume of time available, dollars, quantity of service and dollars available, that the graduating firms need is going to exactly equal entry level firms. I don't believe that is the case. And I think you ought to look at that.

On the Chicago district office and Chicago regional office. You know, it has become fashionable in some circles to criticize these agencies. We have got some good people in the Chicago offices. My testimony illustrates who I think they are.

This region gets criticized a lot for not getting things done quickly enough, and I have been part of that critical group. I don't think that the criticisms leveled at the Chicago district and regional offices have anything to do with the district director or the regional administrator. I think it has got something to do with something inherent in the system. And I am sure you are going to get a lot of flak today about this district or this region.

This district in Chicago does a great deal of the regional business. I would be willing to bet that the Chicago district office does as much as 75 percent of some of the regional businesses in construction.

I might just make this one point. I don't think there is a minority advocate in Government as strong as Chicago District Director Jack Smith.

I would also go on to say that part of their problem rests with this: they have got insufficient professional experience, and insufficient technical staff. They have got some career civil servants up in that agency that are insensitive and try to sabotage everything that some of the advocates for minority business do in that SBA office.

Also the requirement to process all applications puts them in a terrible position. What do I mean? I have got some correspondence in my office from Federal agencies who say "We cannot find any 8(a) firms to do this work." And if I tried to help a firm get certified the Chicago office has to put that firm I am recommending in line with 20 or 25 other firms who have already applied who have got no chance of any contracts.

There needs to be some way where SBA can market contracts that they have got. In other words, if you have got a construction firm saying they identified a half dozen contracts, if they could get certified they could go ahead and get those contracts, that certification review to a firm that has already got a job lined up ought to be given priority against a firm that just wants certification in case it can spot a job after it gets in the program.

It is a sheer ridiculous notion to get in a line behind 100 days' work with one person who has got to take 100 days to do it and in 100 days the contract opportunity is going to escape.

Also with this local district office there is the problem of centralization of authority in Washington. There is a lot of trouble and a——

Mr. MITCHELL. I am sorry. I missed that. Centralization?

Mr. KING. The business of centralization of authority in Washington. There is a lot of time taken between the time that the district office in Chicago thinks that this is a live project or a live firm with some potential and the time that it goes from the district to the region and by the time the region gets around to looking at it and then going to Washington and getting in line with the SBA's central office.

I believe that there ought to be some method by which certification can be provided by the district level in cases where the district approves of it and that when the district does not approve of it that firm has the right to go to the region and go to Washington for an appeal because, actually, when you send something through the district, through the region through to Washington you have eliminated two layers of appeal, and this way you could get something done quicker and still allow a firm that has got a gripe to go to the region and go to Washington.

I would like, Mr. Chairman, and members of the committee, to urge that you look at my testimony of 1974. Testifying before Congressman Reuss, 7 years ago, I believe it was, of this same parallel committee—I must admit the committee has got a great deal more color on it this time around, which I enjoy—7 years ago I indicated to the committee that the committee rules ought to require that the SBA have sufficient capacity to render assistance to 8(a) firms.

What I mean by that is right now—at the time they were examining things then, they were complaining about losses on loans. Now we are talking about that issue plus markets escaping.

If you do not have a companion piece of technical assistance to aid 8(a) firms going along with the benefits for contracts you are in a self-defeating purpose. And without trying to make this committee go through a long story, I just ask that at least the staff director review that testimony and see where 7 years ago I was preaching the same thing I am preaching now, and maybe under the leadership of this particular committee something might happen.

As to the central office of SBA. The SBA central office has got good people, too, but it has been one of the most disorganized, confusing places that I have ever witnessed. At one time persons in this office who were responsible for millions of dollars in contracts could not get a 1-page letter typed in 2 days.

There is a very difficult communications problem between various departments within the central office. I have had one 8(a) firm get assurance that they were going to get help by one department in the central office only to find out that another office within the Agency in the central office denied it. And because of the clear lack of communication between two of the departments this contractor was denied assistance and may endure financial loss.

The Congress should demand cooperation between all departments and staff whose duties impact on 8(a) firms and minority firms. It is absurd to find arrogant, insensitive, philosophically, or personally differing people that disagree with a program thrust or with another SBA staff official. And this is not confined to white or Hispanic versus black people in that central office. You have got some black staff people in that central office that ought to be shipped to Mississippi to work and get out of Washington.

I would like to state on the Army pilot program: many people do not know the impact of the Army pilot program as being one of the features of Public Law 95-507 which demanded that 8(a) firms could go in and get work from the Army.

The media never gives any attention to the positives. All they do is talk about the negatives. I just want to indicate to the committee that one project in Missouri, a black firm that had the benefit of a minority construction management firm was able to get a $2 million contract. They didn't want to give him the job. One white contractor wanted to sue him. But we were tenacious, got him the job, we helped him with the estimate, and the firm has completed the job ahead of schedule and the Army Corps of Engineers suggested to me that they are very satisfied with it.

It is important that you know these details so that you can have something to counter the negative publicity. I am just sorry that wasn't a Chicago firm going to Missouri instead of a firm all the way in Washington, D.C.

We had another project in Denver, Colo., where an Hispanic 8(a) firm was able to get a project under the Army pilot program.

Both of these jobs were over $4 million—well, the combination of these jobs were over $4 million, which, if they had never gotten this vis-a-vis the pilot route, these firms would never have been able to have this kind of project on their track record. So it is important for you to know that the pilot program has worked.

The SBA must be granted the ability to use consultants to handle special tasks. You know, we have been beating this horse to death for the past 10 years and it is very simple. If it takes 10 people to run a good, efficient business, then it must take more discipline and more people than one to give it reasonable assistance. And what we have got in SBA's delivery system is one or two people trying to give help to a business that needs multidiscipline assistance.

I am suggesting that the Small Business Administration should be empowered to make decisions and to take actions within the time limits needed by a minority business. And if they cannot do that, there should be an emergency mechanism to activate the assistance needed.

If a firm needs some help, it cannot wait 7 to 10 days until a communication goes from the district BDS or business development specialist to the director, to the region, to Washington. Firms need help, they ought to be able to be given the help in a reasonable time. The same way you can get quick loan approval, you ought to be able to get quick technical assistance approval.

I have indicated that I felt there was some difficulties with centralization, but I am in continued association with minority firms around the country and I would not at all advance the idea that centralization is not important, that firms do need to have a place to go when they get mistreated in their local areas.

But I believe that this committee should take a close look at establishing thresholds that can be a setup where local decisions can be made at the local level and then allowing for centralization to take place on activities above that threshold.

I am interested in pointing out the importance, Congressman, about providing construction management assistance to contractors. You know, we have got about 600 firms that are construction contractors in the 8(a) portfolio; about a third of the 8(a) portfolio are construction firms. And we have got some very serious problems in terms of not only is it important to get the firm a contract and not only is it important to negotiate, but it is also important that the contractor perform the job properly and he gets help because you can get a big, fat contract and you cannot get whacked out when you are completing it if you don't have some kind of technical advocate down there to help you interpret the rules and help get your needs communicated back to the SBA and back to the Army or whatever agency is doing the job.

I just mention to you that in a test case the SBA central office used construction managers in Puerto Rico, on an abatement project in Denver, and in this project in Fort Leonardwood, Mo., all of which were negotiated in about 2 days after waiting 6 months for the SBA to unsuccessfully reach a point where they could negotiate it.

Unfortunately the SBA promised the 8(a) firm and the Corps of Engineers that the 8(a) firm would be provided assistance on a couple of these jobs and they backed out. That is, the SBA just plain forgot about it. And I have got in part of my testimony a communication from the Army Corps of Engineers indicating that they were disappointed and the contractor might go in default.

I would conclude my points by saying it is a great difficulty in getting into the SBA program. The 8(a) certification takes too long. One reason is that the people reviewing the 8(a) applications have other responsibilities. Another is that the firms come in with incomplete packages that may require time to review it only to ask that you give me some more information.

I venture to say that there ought to be some mechanism for this too, whether it is the CEDCO's, whether it is the SBA's Small Business Institute with the colleges, or whether or not there is special technical assistance, but there ought to be somewhere to get a package preapproved with all of the bases, by outsiders, preapproved by outsiders so that when an SBA staff person looks at it he can spend 4 hours making sure all of the bases have been touched and then he can move it along the process. Because it is impossible, in my judgment, to be able to pull all of these things together by SBA staff as they are presently configured.

The last point in my presentation this morning has to do with the subcontracting plan of Public Law 95-507. I believe that most of the Congressmen on the committee realize that Public Law 95-507 requires that a subcontracting plan be set up for small and disadvantaged firms on contracts that are over $500,000 or on construction contracts that are $1 million or more.

This is the only place in Public Law 95-507 that a non-8(a) firm can get in the door. Congressmen, I am talking about if you, for example, if you got a $1 million shipbuilding going on in Norfolk, Va., a minority firm that makes paint should be able to sell that contractor some paint because part of the law says that you are supposed to exhibit small and disadvantaged business utilization plan on contracts over $1 million.

Now, that is not happening. Somehow the whole subcontracting plan is being ignored. I don't know of one contractor that I am in communication with that has been able to go, after contacting the Agency's SADBU office and contacting the so-called prime contractor as a result of seeing a notice in the Commerce Business Daily and obtain a subcontract.

I don't know of one contractor who has followed that route and gotten a contract, a subcontract, under Public Law 95-507. And I am suggesting that we need a special matching program where the agencies come out and say here is what we have got and that the universe of minority firms that want some of that be included in that communication. And I am asking this committee—I believe that we have had the subcontracting plan in order and in place for long enough now where we need to have a GAO study and examination as to the effectiveness of this program.

If the GAO can jump on 8(a) and talk about a promise unfulfilled, then I believe it ought to take a hard look at the subcontracting clause in Public Law 95-507 and call it a ludicrous aberration.

With those comments I conclude my testimony. I appreciate the patience of the committee and the staff and I stand ready for any questions.

Mr. MITCHELL. Thank you very much. I don't have any questions. There are several comments that I want to make in response to your testimony.

I want to get together with you on noncompliance with Public Law 95-507 because we are getting all kinds of problems from those who oppose the program arguing that there is too much compliance and therefore they are being frozen out.

We just had a hearing in Washington in which some contractors from some of our Southern States representing the Association of General Contractors came in and vociferously complained that because this one Agency was following the provisions of Public Law 95-507 so carefully that in one area all the subcontracts are going to minorities. So we have got apparently some spotty implementation of it. And we will be taking a look at that.

Mr. KING. I would like to say that the people you talked to, without mentioning any names, they lied.

Mr. MITCHELL. No. I would take exception to that, simply because as I have traveled around the country I have talked to a number of legitimate minority firms that I have known throughout the years and they have explained to me how their businesses can be enhanced through Public Law 95-507. I think the problem is probably spotty implementation.

The way we did it last year was to conduct rigorous oversight hearings on the implementation of Public Law 95-507. We have not been able to do that so far this year, No. 1, because we have been caught up with this whole business of the budget and reconciliation.

I don't expect many new legislative initiatives to come out of this committee this year, and it is my intent for the balance of the year to start the agency-by-agency oversight with reference to Public Law 95-507.

I like your idea of calling in an independent consulting firm to review a company's status and its viability before there is any graduation. I think that is a pretty good recommendation and certainly one that I will follow through on.

I also like the idea of certification at the district level. I have encountered—as you know, Paul, I don't deal with just Maryland. I deal with businesses all over the country. And the delay in certification is just unconscionable.

Year after year SBA has told us "We will certify for 8(a) within 90 days" and year after year we don't get any compliance with their own timetable for that. So it may well be that the use of a consultant firm or some outside help in preparing that 8(a) certification could speed it up and certainly I would like to take a look at certification at the district level.

I just don't see any reason why it should take more than 90 days to certify—90 days or less to certify a firm for 8(a) status.

Having said all of that, I just want to indicate that it is my great fear that if any of your recommendations cost, we are not going to get them, which I think is stupid.

I think the Congress is in such a budget cutting mood and these impediments have been placed on the agencies and I think it is going to be difficult, for example, to find a pot of money, even to use consultants on an emergency basis such as you have suggested.

I think it is stupid not to allow money for that because you pay at the other end. Every company that doesn't get the full array of services, including outside consultants, may be a company that goes down the drain; therefore you have simply lost money.

But I mention that only to indicate what I consider to be a very negative and obtuse mind that is dominating the Congress as of this time.

You wanted to make one other point?

Mr. King. Yes. Just on that point I recommended in 1974 that 10 cents out of every dollar that was going to be put into the loan fund be kept out for use of management assistance and fiscal control on administering that loan.

What I am suggesting, and I may not get a whole lot of agreement from some of my constituents and friends, but I am of a mind that I would rather see $100,000 of $1 million pot that is going to be made available to minority firms say for loans out of a particular region, I would rather see 10 percent of that or some percentage of that as paid to somebody—I don't care whether it was a CPA or a—not nonprofit people. I want people that want to do a good job for pay, for profit. Pay somebody to help the firm manage that money.

Mr. Mitchell. I agree. I think you might want to reduce it down to 5 percent in light of the 25-percent cuts that have been imposed on direct loan money.

Congressman Savage.

Mr. Savage. Let me just commend Mr. King for his very powerful testimony.

May I also assure you, however, that the chairman of this committee is very concerned about the problem of the lack of vigorous enforcement that you point out.

There have been discussions about even the moratorium on 8(a) that was placed and as a consequence of some of those discussions it may not last long.

Let me just however ask one question. Could you briefly elaborate on the comment you made with reference to what you called front companies?

Mr. King. Yes. Congressman Mitchell's State, I believe, has imposed a law on front companies—but it is a bill that is in the hopper that is in the State of Maryland, if I am not mistaken.

The basic problem with so-called front companies is twofold. A front company, by my definition, is a firm that represents itself as being minority owned and controlled for the benefit of getting a particular job that is either reserved for minority benefit and in fact is not owned or controlled by industry-wide definitions on legal principles but the control is basically in the hands of white or otherwise disadvantaged persons who are deemed ineligible.

Now that, to me, is a case where it is doing two things wrong. One, a bona fide legitimate minority firm is being denied the opportunity for that work, to get that work, and to get that experience. The second point is that when minority firms are exposed as being fronts it gets the kind of reaction that we got in SBA where the eligibility stuff just gets crazy. They start just piling up test after test after test. You get a reaction from the white community and from the bureaucracies and you deny the minority firms the opportunity for the contract action.

Mr. Savage. If I may, do you have any suggestions in light of the staff cuts that are approximately 10 percent, as you know, in the current proposed budget, do you have any suggestions to help us avoid the dealings with front companies?

Mr. King. Yes. One, I think that there ought to be punitive damages which are financial and imprisonment if necessary associated with it. That is one.

I think that a firm that represents itself as a bona fide minority and that is not ought to be denied the opportunity to participate for at least 5 years on any Federal construction or any Federal-assisted construction.

I also think that you ought to in some way have some punitive damages to the general contractor or to the agency that allows that front company to be involved.

Let me give you an example. The EPA grants money to the Metropolitan Sanitary District. The Metropolitan Sanitary District awards money to a large white contractor. The large white contractor therefore might deal with a so-called front company. I am saying that the damages for allowing a front company to participate ought to be assessed like liquidated damages on a construction job.

If a front company is involved for 100 days on a project they ought to be assessed a penalty, a dollar penalty, for each day that that front company is in operation, and it ought to go all the way from the prime contractor all the way to the grantee, all the way up to the EPA regional office that approved it. And if you get that many people getting hung out there with a chance to get hurt you will find, Congressman, that there won't be so much approval of these front companies.

You know, the Department of Public Works here in Chicago claimed three times—disallowed a contractor three times the right to be qualified as a minority. And whoever this company was, put some stuff together and ran over to an EPA-funded project, and so far, to my knowledge, nobody said anything negative about them.

So where one Federal agency disallows them, here we have the possibility of another Federal agency allowing them. I am not sure yet whether EPA is going to allow, but they at least had the audacity to go over to the EPA with the same junk that got thrown out at the Department of Public Works which is a UMTA-funded project.

Mr Mitchell. Further questions?

Mr. Savage. No, Mr. Chairman.

Mr. Mitchell. Thank you. I will comment very briefly on front companies, and I have been commenting in this fashion for about 4 or 5 years now. You leave me and the members of the committee almost essentially powerless to do anything about front companies unless you send into us specific information—and I am talking to the general audience, not just to you—specific information on front companies.

You don't have to sign your name to it.

When that information has been sent in—and it has been very scanty—we have an investigative staff that we can send out. We don't have to depend on the agencies. As we did under EDA where there was rigorous monitoring for companies. And a number of applications were simply turned down because we do two things. EDA did an investigation and then we would call out to the field, to the bona fide minority companies that we know, and say: "What do you know about this firm?"

So I am saying the fight against front companies is not going to be won unless the community gives us some information.

As I have said many times—I have an amendment. I just haven't had a legislative vehicle to attach it to. But my amendment would call for a $50,000 fine, 10 years in prison for any company that fronts. And as soon as I can get a legislative bill I am going to slap that on it.

But despite the absence of my amendment, there is still general Federal law that says if you make a fraudulent statement you can be prosecuted. So I simply beg of anyone within the sound of my voice, if you can identify any front company that has gotten a contract with any agency, send us in enough specific information so that we can go to the Justice Department with it.

Mr. Savage. Will the chairman yield?

Mr. Mitchell. Yes.

Mr. Savage. Let me just for the record indicate that my office is in receipt of some information—or at least some allegations—regarding EPA and the Metropolitan Sanitary District and its problem with regard to the case you have in mind.

My staff is doing some preliminary work on it locally and should within the next 6 or 7 days be prepared to turn over what we find to this committee's staff. There was no great rush on it because the contract, which you may have in mind, does not come up for letting again until August. It was not approved the other day.

But we are checking it. Information did come to us and that will be passed on to the committee.

Mr. Mitchell. And I guarantee you we will give you maximum cooperation. I will not tolerate front companies. Not as long as I am chairman of this committee. It is not going to happen.

Mr. Fary?

Mr. Fary. Thank you, Mr. Chairman.

Mr. King, your communication to my staff and no immediate reply puzzles me. One of my staff is here and we will talk to you. As you say, perhaps your query was lost in the daily shuffle. I will check it out and expedite your request. I apologize for any possible oversight and I assure you it was not intentional.

Mr. King. Thank you, Mr. Congressman.

Mr. Mitchell. Thank you, Mr. King, for your testimony; it is always good to see you.

Mr. King. Thank you.

[Mr. King's prepared statement and attachments follow:]

## PREPARED STATEMENT OF PAUL KING, DIRECTOR, NATIONAL ASSOCIATION OF MINORITY CONTRACTORS

Mr. Chairman and Members of the Committee:

My name is Paul King. I am testifying today as a director of the National Association of Minority Contractors. In the interest of time, I have submitted written testimony, with supporting documentation, which I respectfully request that it be placed in full into the record of these hearings. Without going extensively into my background, I believe it important to note that I was appointed to the National Advisory Council for the U.S. Small Business Administration under the Nixon and Ford Administrations. I served as special advisor to the Office of Associate Administrator MSB/COD under President Carter. I have had an advisory role on various task forces studying issues within SBA for the past nine years including policies affecting the 8(a) program, and Bond Guarantee Programs, etc.

I served as the Director of the first federally funded technical assistance program to assist minority contractors in Chicago. I was successful in expanding the original programs from a staff of three to one of over eighteen staff persons.

The central theme of this testimony rests on these assertions. If all of the laws, programs and regulations established to aid small and minority businesses were properly funded, adequately implemented, enforced with the vigor associated with other government policies, and given the cooperation of the other agencies - minority contractors and other minority firms could reach viability within three to ten years.

All we need do is review a few

. The 4R act requiring the railroads to purchase from minority business - such little cooperation a suit had to be filed by Chicago minority vendors to force the railroads to obey the rules.

. DOT MBE requirements

- EPA MBE requirements
- The Subcontract requirement of 95-507
- The relationship of the National Minority Purchasing Council with private sector corporations
- The SBA with its total unique programs
- The offices of SADBU in the various agencies
- MDBA
- The Interacial Council for Business Opportunity(ICBO), led by Malcom Corrin. A fine national organization - which has never received an SBA contract.

The SBA appears to have a complete capability to help firms - particularly those allowed into the 8(a) programs. However the SBA can offer much to non 8(a) firms, as well.

My testimony today covers these points:

1. The attacks on the SBA, particularly the 8(a) program and those programs affecting minority business are part of a concerted racist immoral greedy attack to dismantle programs to help minority business.
   Some of these people are the very same people and groups who claimed "foul" during the Public Works Act which called for 10% MBE utilization. They are against Federal Safety Programs, Women in the Construction work force, and laws protecting construction worker wages.
   Through PL 95-507, we have the force of law in place. Whereas many of these opponents have been successful in getting regulations diluted, they will have a more difficult time with changes in a law. However, time is running out. If we do not, rapidly, gain enforcement of the spirit, letter and intent of 95-507, opponents of minority business will get around to rendering it ineffectual.

2. Graduation from the 8(a) program should be done on an individual case based on the industry and type of firm and level of development of the firm. Three to five years is too short a time. No firm should be graduated until the firm has received the full level of benefits and help to which it is entitled by law and SBA policy (examples). No firm should be graduated without the review of an independent consultant with knowledge of the industry. SBA should be required to use consultants in the reviews required by SBA. These consultants should be proven as being sympathetic and sensitive to minority business difficulties.

Those of us who were familiar with the origins of this graduation business, will recall that this was a great concern to a particular U.S. Senator from the South. In private conversation with me, in Washington, he indicated that it was not right for firms to "roost" in the 8(a) programs. Going further, it was reasoned that if those who had substantially benefitted from the programs would move out (graduate) then there would be room for other firms to be accepted into the program. This logic and other thinking went into the creation of PL 96-481. And here we see another case of what I refered to in my 1974 testimony. Someone finds a headline, a pressure group or a political necessity - which stimulates a impulsive need to beat up on a defenseless opponent. Defenseless because the small and minority firms are insulated by the SBA itself. SBA, with its own weaknessess, (through no fault if its own) - is always reacting while its constituent beneficaries (Small & Minority Business) have no say so in what it does, or what it promises.

3. Some comment needs to be made about the Chicago District Office and the Chicago Regional Office. It has been fashionable in some circles to critize these agency offices. In some cases, the criticism has been justifiable. However, I must point out that there are some fine people in these offices whose committment to minority business is without question. Among them are John Smith, District Director; James Gordon, Assistant Regional Director for MSB/COD; Leonard Harbin, Al Belluomini and Gary Peele of the Chicago District. If one wants to pattern a team of SBA officials, these persons would be useful models. I am the first to state that it takes this region and district too long to get some things done.
But that lone statement is unfair. The fact is that the demands placed on the agency are greater than they can accommodate. The expectation of the public have been heightened beyond the agency's ability to deliver. Here are some causes:

- insufficient professional, experienced technical staff
- career civil servants within the agency office who are insensitive and/or incompetent
- the requirement to process all applications, whether there is a chance of the firm obtaining government business or not.
- the difficulties with centralization of authority in Washington. (I am no opponent of centralization - but I do recognize the difficulties in delay when decision making occurs elsewhere).
- lack of cooperation from other agencies in procurement and contract execution

4. I would call the committee's attention to my testimony of 1974 to the House Small Business Committee. An exerpt of this testimony is attached. Seven years ago, I urged the committee to enact rules that would give SBA sufficient capacity to render appropriate assistance to construction firms to protect against losses and to shore up the agency's technical resources, so as to adequately aid firms in a timely and competent manner. Now in 1981, this problem has still not been sufficiently addressed. If the agency is going to be given more and more responsibilities, it must have technical resources to adequately service both 8(a) and non 8(a) firms. To date the use of technical consultants is the fastest most efficient remedy. See Attached Exhibit I.

5. The SBA Central Office

Here also we have an office which has some officials and staff dedicated toward helping minority small business. Among them are Robert Wright, Paul Browne, Roy Henry, Fran Willett, Rod Lewis, Ed Hoffman, Milton Wilson, Al Carter, Barbara Ivory and Carnell Watson. But there are also open and silent opponents to minority business in this office.

This office is also frustrated by too much work for the responsibility placed on it. At one time, persons in this office responsible for millions of dollars in contracts could not get a one page letter typed in two days.

There is also a very difficult communications problem between various departments within the Central Office. An 8(a) contractor had been assured tehnical assistant on a very difficult contract. Because of a clear lack of communication between two departments, teh contractor was denied the assistance and may endure financial loss.

If the SBA Central Office is to have the current level of control over the 8(a) program and minority small business, it must be given the internal capacity to operate efficiently. The Congress should demand cooperation betwen all departments and staff whose duties impact on 8(a) firms and minority firms. It is absurd to find arrogant, insensitive people - purposely delaying actions because they disagree philosophically or personally with a program thrust or another SBA staff official. These people should not be allowed to toy with a person's business, family or security simply because they view the program as too much for any one to receive from or through government.

6. The Army Pilot Program associated with PL 95-507.

The only substantial media attention given to this program has been negative. White groups have stated that the pilot program has resulted in higher costs and work being delayed as well as inferior.

Yet I can cite two Army Pilot Programs construction projects which were successful. In both cases SBA engaged a minority construction management firm to act as its agent.

1) One project was in Missouri - A Black firm joint ventured with a majority group firm. The negotiations were rapidly completed due to the CM firm's presence. The project is expected to be completed ahead of schedule and the Army Corps of Engineers expresses satisfaction with the results.
2) Another project in Denver using the same minority CM firm assisted in the selection and award to a Hispanic 8(a) firm. Here again a difficult project was negotiated within acceptable Army cost limits.

Both of these projects were over 2 million dollars and represent opportunities which would never have been realized without an Army Pilot Program.

7. The SBA must be granted the ability to use consultants to handle specialized tasks. If we agree the SBA mandate is to help minority, small business - then the Congress must address - how the agency can be provided the tools to do so. If we concur that businesses must make timely, accurate decisions for success - then it only follows that the providers of help must be equally accurate and timely. And herein lies this committee's charge - SBA should be empowered to make decisions and take actions within the time limits required by businesses. If they cannot do it, there should be an emergency mechanism to activate the assistance needed.

7A. A principle reason for the use of consultants is the question of timely action. In the best of circumstances where you may have a competent SBA staff person, sensitive to the problems of a minority small business, experienced in the real business world and knowledgeable about the industry (in which the business resides) - there is no way for an SBA staffer to react quickly enough to deal with the time pressures of one business, let alone 4 to 12 the official may have a responsibility toward. It can be documented that one 8(a) firm requested assistnace in April and in June it was still not approved even though the mechanism for such help was in place and the nature of the assistance was connected to requirements made by the agency itself. Consultants are in business - they are motivated to do a good job on the premise that they can make a reasonable profit and by doing a thorough efficient job, they can get repeat or expanded business in the future. No such motivation exists for the in house staff. There must be the professional desire to do well and hopefully gain advancement. Frustrated by changes, over which they have no control - (political, administrative and volume) they must set limits on how they will best utilize their time. Through well intentioned - they cannot focus and concentrate on a business as is required.

I am familiar with one very successful consultant effort which required over 10 different persons to contribute to the effort. This could not have been done "in house" by SBA - even if the officials had ignored every other responsibility.

8. Difficulties with centralization of authority in SBA. I have continued association with minority contractors around the country. There is no way I can be fair to this constituency and state that it is not important to minority contractors to have a place to take greviances when they are mistreated by local officials. I am aware of one case where a southern based official returned projects offered for 8(a) reservation, citing as a reason that there were no 8(a) contractors in the area to perform these jobs. At the very same time, I was petitioned by an 8(a) firm, in this same southern region, for help in getting some new business.

The key problems associated with centralization show up in the operational delays associated with two and three tier decision making. This committee should take a close look at establishing thresholds that can be established where local decisions can be made and allowing for centralized decision above these thresholds levels.

9. Successful use of Construction Management firms. UBM, Inc., a minority firm, provided construction management services to 8(a) firms. This is an example of use of technical professionals which aids the 8(a) firm and leads to results expected of the Small Business Administration.

Examples:

- A construction project in Puerto Rico was reserved for an 8(a) contractor (a native of Puerto Rico). The negotiations over contract price were hopelessly dead locked. The New York office of SBA could not reach agreement with the Treasury Department. The SBA correctly resisted the common suggestion to settle all price differences with Business Development Expense funds. With construction costs escalting as much as one per cent per month, the delay in settling the dispute, only led to an increased difference. UBM was assigned to assist in resolving the problem. After the rapid deployment of estimators, engineers and project managers, UBM assisted in resuming the negotiations. After presentation of the technical data to Treasury officials, the negotiations were successfully completed in one day. The contract price was agreeable to SBA, the 8(a) firm, and the Treasury Department. This effort resulted in no Business Development Expense being used by the SBA.
- A highly complex pollution abatement project was being pursued by an 8(a) firm. This project was under the jurisdiction of the U.S. Army Corps of Engineers. It was possible, that punitive damages

might be imposed if this project was delayed beyond a given date. In an unusually brilliant move, the SBA central office, assigned UBM to examine the scope of the project, while the project was still in the design stage, (thus causing no delays to the construction dates). This technical assessment was to be compared with the 8(a) contractor's capability and plan of performance. It was determined that the contractor would have to have certain conditions met to have a reasonable chance of success. UBM provided the 8(a) firm with assistance in researching highly specialized construction techniques required in this project. Through UBM assistance, the 8(a) firm assembled the appropriate team. The project was negotiated successfully and is currently under construction. The Corps of Engineers reports satisfaction. (Unfortunately the SBA promised the 8(a) firm and the Corps of Engineers that the 8(a) firm would be provided pre-construction and during construction assistance - delays in decision making in SBA Central office have denied this help, even after the Corps of Engineers requested the promised assistance). See Attached Exhibit III.

. An energy conservation project was pursued by a minority 8(a) firm. The firm was dead locked in its negotiations with the Army. There was local pressure by majority firms against this project going to an 8(a) firm. UBM was brought in to provide technical assistance and assist the 8(a) firm. After a detailed estimate, in which the 8(a) firms prices, after adjustments, were technically defended, the negotiations were resumed and completed in less than two days. The contract was awarded with no Business Development funds being required. This contractor received full

> assistance and is expected to finish ahead of schedule. The Corps of Engineers reports satisfaction with the 8(a) firm's performance.

If this same type of competent professional assistance were provided to manufacturers, truckers, and other 8(a) firms in a rapid and timely fashion - many more successes could be reported in other industries. It should be noted that this assistance also defuses the criticism heaped on SBA by other agencies - that SBA moves too slowly.

10. Difficulties in gaining 8(a) certification.
It is a consistent criticism of the public that it takes too long to get into the 8(a) program. Many reasons may be offered why it takes two years for some firms to gain entry. One reason is that persons reviewing 8(a) applications have other responsibilities to firms already in the program. Another is that firms may come in with incomplete packages which may require a reviewer's time only, to request more information. The delay between this action may cause a financial statement, originally submitted, to be outdated. Hence, another delay is caused by the request for an updated financial statement. Then we may get a change in SBA staff. The official familiar with the application may get promoted to a new position. The package is left to an official who must start from square one, again delaying the process. If and when the package goes through the district, it must be reviewed and signed off by the region and finally it must go to Washington for final approval. In many cases, this type of centralized authority can help a firm who may receive maltreatment in the field. It also, removes an added layer of appeal. Since Washington approves or disapproves - an appeal for reversile goes to the very point the appealed decision come from.

It would appear to be better if districts were allowed to give conditional approval for entry into the program, and have declined applications follow a route of appeal at the regional and Washington level. Declined applications should be sent to the regional offices and to Washington within 30 days of receipt of the applications from the previous point within SBA. Districts should give 8(a) applicants a time certain for final review of a package. Districts should use SCORE and SBI to help applicants prepare packages. MBDA funded groups should have as part of their scope of work a requirement to bring elligible minority firm's 8(a) applications to a point of completion, such that there will be no delays due to insufficient information. Moreover SBA should review its capability and state to the committee, how long an application should take for review and approval. If the Committee believes this is too long it should take special measures to empower and mandate the agency to act in a more timely fashion.

11. The subcontracting plan for disadvantaged businesses required under PL 95-507 is the principle opening for non 8(a) firms to benefit from the law. To date there has been little success with this program. I have continued to advocate an agency by agency program policy to match up minority firms with the project opportunity. To simply expect the Commerce Business Daily, the Agency SADBU office and the various SBA "sub contract specialists" to do the job has proven to be insufficient. Take for example Quality Coatings & Supply. This firm makes the chemical coatings used on ships and military vehicles and equipment. With a proven capacity to provide a product needed by the large Defense contractors - The company has not been able to land a single contract under the 95-507 subcontract requirement. We have construction firms who are multi-faceted in providing engineering, construction management as well as trade contract work. Yet they get no business because there is no mechanicism to match frims during the design stage with project needs and stimulate communication between the prime contractors bidding and interested minority firms. The existing lists and funded organizations are not sufficient. A special matching program per agency needs to be set up for this subcontract purpose.

12. 8(a) firms have been too silent on program benefits. Now that wholesale threats are being made on the programs, 8(a) firms are growing concerned. Yet, too few, have ever taken the time or interest in writing letters or making positive statements about the programs. All comments usually show up negative or not at all. When the GAO advertised in the Commerce Business Daily for comments on the 8(a) program, all two thousand 8(a) firms, their employees and families should have written about the benefits they have received or those they could expect to receive as a result of the 8(a) program. A very simple deduction should be made by 8(a) firms. If the program exists and you are in it - you have a chance to improve inadequacies. If there is no 8(a) program - there is no remedy what - so ever. When this program was first conceived - few people thought it would ever generate those statistics and results (in some areas). Yet some of the prime beneficiaries were too busy or unsophisticated to protect and defend the program. See Attached Exhibit II.

13. 7(j) technical assistance is an SBA agency mandate that has not been properly offered during the current fiscal year. This assistance is meant to provide small and minority firms with added help to assist them in becoming viable. One delay after another has occurred to cause some actions to provide technical assistance to be delayed for over 6 months or more.

- An eastern newspaper runs an article on consultants to government. 7(j) contracts are held up and 8(a) and minority firms suffer.
- One official claims another official did not submit the proper forms for contract approval - 7(j) contracts are held up - 8(a) and minority firms suffer.
- The Administration announces budget cuts. 7(j) contracts are held up - 8(a) and minority firms suffer.
- New leadership takes place in the agency. 7(j) contracts are held up - 8(a) and minority firms suffer.
- It is determined that there cannot be payment of funds obligated during one fiscal year issued during the next fiscal year. 7(j) contracts are held up. 8(a) and minority firms suffer.

An affiliate of Control Data Corporation started to assist 8(a) firms and stopped without ever resolving the problems identified.

This committee should investigate what the level of spending for 7(j) technical assistance has been for the current fiscal year and what specific remedies can be used to correct these delays.

14. In 1979, the NAMC was awarded a contract to provide technical assistance to minority construction firms. The contract authority came from Washington. The contract services were to be requested by the field offices. After almost 1 and 1½ years the, contract still has more than 1/3 of the original contract time available for use, even through the original contract was intended for 6 months. Minority firms need this assistance. In some cases firms have written for this assistance, available through the NAMC contract. Yet the field offices have continued to underutilize this resource. This appears to be another case of inadequate communication and cooperation between the SBA field offices and the Central office programs. The cogent point behind this issue is that it is a typical SBA problem. The resource is there, the authority is in place but some how within the delivery system - the intended beneficiaries - the minority 8(a) firms missed the help.

15. The SBA gets examined quite frequently, it appears that the 8(a) program especially, is vulnerable to the opposition discussed earlier. The problem is further exacerbated, by the built in inadequacies found in the agency's lack of resources. The GAO report on the 8(a) program - "promise unfulfilled" is a case in point. There are many accurate statements and I cannot state that any bias was intended. However if one were to only read the cover and the reports found in the press, it appears that only the negatives of the program are worth media attention.

The 8(a) program is designed to help - those who have benefitted from this program should come forth and counter this negative attention with documented evidence of program assistance received.

EXHIBIT I

# OVERSIGHT INVESTIGATION OF THE SMALL BUSINESS ADMINISTRATION

---

## HEARINGS

BEFORE THE

SUBCOMMITTEE ON SMALL BUSINESS

OF THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

ATLANTA, GA.
MAY 31, 1974

CHICAGO, ILL.
JUNE 14, 1974

MILWAUKEE, WIS.
JUNE 15, 1974

Printed for the use of the
Committee on Banking and Currency

I would like to say Larry Cherry, who is a good South Carolinian, Mr. Dwyer, on your staff—I have known Mr. Cherry for a long time. He was in the Small Business Administration office in Columbia, S.C., and he is, in my estimation, the epitome of fine public service.

Mr. Dwyer. Thank you. I agree with you.

Mr. Stephens. Thank you very much, Mr. Gettys, for your comment. I think sometimes we do not need as much admonition about our patriotism as we need people to pray for us.

We will take a recess now until 10 minutes to 4, and at that time I am going o ask the people who are here and would like to be given a few minutes to come to the table, and then we will discuss what kind of procedure we can take in order for you to give us some information, and we will take the 10 minutes in order to let you get your papers together. Then I want to express the feeling again of the fact that you and your staff have fully cooperated in every way. I cannot think of anything we could have asked for that you have not supplied, and thank you.

We will, of course, see you tomorrow. If you have anything else you would like to add, I would be glad to have you.

Mr. Dwyer. Chairman Stephens, may I just quickly say that on behalf of all of us, it has been a pleasure to work with you, and to the other Congressmen and to Mr. Prins, we think what you are doing is terribly important, and it is my personal view that out of this hearing will come new guidance and new suggestions all with the objection in mind of helping our agency become a better instrument of Government to help the people we all want to help. I am delighted to work with you, and I, again, welcome you in Chicago and I will see you tomorrow in Milwaukee.

Mr. Stephens. Thank you. Our purpose is to be, not destructive, but as constructive as we possibly can.

Thank you very much, and we will recess now until 10 minutes to 4.

[A brief recess was taken.]

Mr. Stephens. The subcommittee will come back to order.

As some of you may know, we got in late last night and got up early this morning and have been continuing hearing matters.

The announcement that I made when we first started was that we would have Mr. Dwyer and Mr. Keith and then we would hear from Paul King of the United Builders Organization.

Mr. Keith, did you have anything further?

Mr. Keith. No, sir.

Mr. Stephens. The next order of business would be to hear Paul King of the United Builders Organization. Mr. King, if you would come forward, please.

We want to get the gist and the thrust of what others of you who are here have for us to hear from your testimony, but we are going to try to adjourn here somewhere within about a half hour, unless there is something that we can develop further from those of you who have come, and we want to tell you we appreciate your coming here to talk with us.

How many of you would like—if you will excuse me—how many of you would like to be heard now?

[A show of hands.]

Mr. Stephens. If you would come around then. All those who are interested or anybody else, we would be glad to have you come forward at this time. The reporter would like to get everybody's name.

Mr. King, we will start off with you. Paul King of the United Builders Organization, and then I do not know which of you two men should come first. But if you will state your name, please.

Mr. **Shoemaker.** Clarence Shoemaker.

Mr. **Stephens.** Where are you from?

Mr. **Shoemaker.** Aledo, Ill.

Mr. **Stephens.** Do you want to give a further identification?

Mr. **Shoemaker.** I am an attorney at law.

Mr. **Stephens.** And if you will give us your name.

Mr. **Small.** P. L. Small, United Machinery.

Mr. **Stephens.** Well, gentlemen, if you will try to summarize what you want to get over to the subcommittee, but we do want you to feel that you have had an opportunity to tell us what you would like to tell us.

So, Mr. King, I would like you to start, and if you could summarize in about 10 minutes, and if it takes a little longer, we would be glad to gage the time as we go.

## STATEMENT OF PAUL KING, UNITED BUILDERS ORGANIZATION

Mr. **King.** Mr. Chairman, I would like to say that in the event I do not have time to say all the things I want to say, that I could submit for the record.

Mr. **Stephens.** We would be delighted to have you do it, and if you would send it to us in Washington in care of the Banking and Currency Committee in the Rayburn Building.

Mr. **King.** I know where it is at.

Mr. **Stephens.** The ZIP code is 20515.

Mr. **King.** By way of introduction, I am Paul King. I am executive director of the United Builders Organization. It is an organization of minority construction contractors here in Chicago. I am the labor chairman of the National Association of Minority Contractors and I also serve at the pleasure of the Secretary of Labor on the Chicago Construction Coordinating Committee and served on the Construction Advisory Committee for the Cost of Living Council. I say that for the purpose of giving you some indication that my interest in your hearings today center around the construction industry and the role that SBA is playing toward minority contractors in this industry.

I think that we have heard today a great deal about the description of the problem. I think that my intent here is to try to serve up some solutions, some possible direction coming from the minority construction community, one case of which was mentioned prominently today in the case of the Morton Tile problem. I think SBA has one inherent deficiency relative to construction and that is that they do not have any personnel that is effectively educated and experienced enough in the construction industry.

Therefore, when you have a construction contractor come in with a loan application, there is no one there with the expertise to render a judgment of whether it is a good project or a good business or it has the capacity to grow. It is the case of trying to take a legal question to a plumber instead of a lawyer or asking some attorneys to fix a faucet. It does not always work.

I think there are some solutions to this. I think that local minority contractors associations, such as we have here in Chicago, such as we have in Detroit and most urban areas, minority contractors associations are assembled to try to help contractors with problems. It is my judgment that if SBA would aline themselves with technical staff in these minority contractors associations, many of the problems could be solved at that point.

I think also it was mentioned this morning that SBA's contractors were not doing a sufficient job, and that is that once a loan has been made to a particular company, it is the expectation of that company that he can go back to SBA and get management and technical assistance. I think that is your expectations as I read it today.

Mr. Stephens. That was the thrust of two questions that we asked, yes.

Mr. King. But that was not available, forthcoming or in the design stage relative to construction contractors. In other words, there is no way——

Mr. Gettys. Mr. Chairman, could I interrupt?

Mr. King. Yes, sir.

Mr. Gettys. Are those people you are talking about who could do that available, do you think, for employment by SBA?

Mr. King. Yes, sir. Let me give you an example.

In Chicago, alone, this year there is going to be 2,000 less jobs because there is a depressed construction economy. Many of those people that will be out of work are superintendents, plumbers, craftsmen who know something about business, that could be retained as consultants to help solve problems like this for SBA loan recipients. So they do exist.

Mr. Stephens. There would be available personnel, in other words.

Mr. King. That is right. I am saying that there is no way for a man to burn through $300,000 in one day. It takes some time to do that, and the problem is that——

Mr. Gettys. You do not know some of my friends.

Mr. King. Well, I am from the North. See, all the big spenders are in the South. [General laughter.]

Mr. Stephens. Your point is well taken.

Mr. King. The point is there is no ready assistance to say from day-to-day here is what we are going to do. You have got the money. We are going to help guide you in handling of that money and you have a day-to-day liaison.

Now I represent minority contractors and in the construction industry, as you know, it is a highly financially intense industry when you have to have money to make it. But I would say that for every dollar that is lent to a contractor, that there needs to be at least a dime set up for helping him manage that dollar. There needs to be legal assistance identified. There needs to be an accounting firm identified. There needs to be an insurance planner available.

So in other words, you are not helping a person when you give him money and you do not give him the actual expertise to help direct the flow of that money. It cannot be some retired executive that may not want to come into the inner city on Saturday morning. It has to be somebody who is getting paid and somebody that is available when the guy needs him. It might be in the middle of the night.

What I am saying is that the SBA, in the present activities, the guy is doomed. He is doomed to failure because you are giving him money that he cannot pay back and you are not giving him the help to help him make a go of it. We all know that one of the problems is that much of this lending has been taking the place of what is called equity capital. Many of these businesses are startup businesses. Everybody knows that when you start up a business the first couple or 3 years you are going to more than likely have to put money in. You are not going to be taking money out.

What these cases represent is somebody going into business or going into an expanded version of business, borrowing $300,000, maybe having to pay 12 percent interest, possibly losing money or possibly not collecting their money, and falling into a default situation, as Mr. Prins put it, actually before he has started. I think that we ought to understand that the problem with many of these social programs in the United States today is the fact that we have some pressure group throw up and raise some demands, then the Congress enacts some legislation and then we have an instant program without enough pretesting and enough preplanning, and then when it does not work, here comes the Congress talking about let's not appropriate for it again because it did not work, when in fact it is our fault in the first place because no missile from Cape Canaveral could have flown without firm pretesting and some planning to get people to the Moon. I say that the same thing is here. Much of the fault lies in other Government agencies.

For example, we have got a contractor right now who will be on the default list by the next time you come around, and the reason is that the Atomic Energy Commission owes him $200,000, and they will not resolve the matter. He cannot pay off his bank loan, so the banker is going to go and ask SBA to settle it.

Now what am I saying here? I am saying that SBA should have the leverage to demand that that situation be resolved one way or the other so that this man can eventually get himself squared away. I mean these agencies do not even talk to each other.

So the point is that if SBA is going to be in the business of assisting small businesses, many of which are minority businesses, I think it has to be done with the realistic image of what we need to have happen.

I think there is another problem, too. I think that there has been too much emphasis on numbers, great big jobs. You know a lot of people dream better than they can perform and a lot of people in Government are so concerned about giving you statistics when they are getting ready to get a new budget approved that the small businessman gets caught in the crossfire. Everybody is not going to do a million dollar job. Some people can make a good living out of a $10,000 job, I mean enough of them.

But we have got a lot of Government agencies trying to push great big projects on people who are not equipped to handle them, only to the demise of that small business person.

So I think that we need to have, for example, this building here has a building manager. He has a discretionary power to give jobs of $2,500 or less without competitive bidding. Why could not the SBA set up a relationship where some of these construction contractors in the janitorial, in the window cleaning, or whatever it is, be able to get some of these smaller jobs but enough of them so that they could manage it and still have a volume sufficient to repay their debt?

I am only saying that in today's marketplace you see that homebuilders are suffering the most. We had over 440 major businesses in the homebuilding industries go out of business, file bankruptcy, during the first quarter. We have seen in the last 10 years interest rates go from 4 percent all the way up to, I guess, ad infinitum because it is probably going up while I am talking. But the point is we have got so many peculiar economic trends going on now in the country, scarcities. I called up a supplier and asked him to give me a price on some paint, and he says, I will give it to you when it gets there. I mean they do not even quote you prices anymore.

The point is how can you have any kind of reasonable chance for success if you have got an agency lending money to people in these kinds of trying times without giving full consciousness to what they need in terms of technical and management assistance, and you cannot do that if the people there cannot make a sound judgment from a construction point of view.

So I know you gentlemen have been listening to a lot of information all day and I do not want to belabor this, but I would just say that there are some reasons why contractors go into default, some real legitimate reasons. One of them is the fact that the rest of the parameters in the success equation were not thought of and planned for at the outset.

This one case you are talking about, Morton, he got so many big jobs before he could handle them—he had maybe 30 or 40 men working for him at $7 or $8 an hour, and he was not stealing money and going to Florida or something. He was actually being, his productivity on his jobs was so low, he did not have the ability to manage it all properly and each day he was losing, and I do not say that that is the Government's fault. I do not say it is any one person's fault. But even in cases of collection, I know this guy. In a couple of cases this guy could not collect his money from people he was working for. What is he going to do? How is going to pay the bank back if he cannot collect his money? Yet, when he asked SBA for some collection assistance, they say, get an attorney.

So all I am saying, my testimony basically centers around the fact that if you are going to have a program to help the small business person, especially in construction, you have got to have parallel to that a delivery mechanism that helps them get over the rough spots, and if you do not have that, you are doomed to failure, and we are going to suffer from it.

I thank you for your attention, and if there are any questions, I would sure like to answer them.

Mr. **Stephens**. Mr. King, if you have those notes in writing, we would be glad to have them, and I think what you have said makes just about as good sense as anything I have heard in a long time.

Mr. **Teichner**. My name is Leon Teichner. I am chairman of SCORE. I have no questions. I would like to talk about publicity.

Mr. **Stephens**. If you would sit down, we would be glad to give you an opportunity.

Mr. Gettys?

Mr. **Gettys**. Thank you, Mr. Chairman.

I commend Mr. King for his testimony because what he stated starts to gel in my mind exactly what I have been trying to think of in talking to Mr. Dwyer today, if he were here, about the managerial assistance.

You need real assistance and not meddling, and you need some expertise. You do not want to just put $100,000 in a man's hand who may have skills in construction but no skill in dealing with the bank or the management or employment of personnel and that sort of thing.

Mr. KING. That is essentially correct.

You see, Congressman, without belaboring the point, the average construction company that is successful has about 10 components: somebody going to get the work; somebody to market the jobs; somebody to arrange financing; somebody to estimate it; supervise, expedite it, and so forth.

Now you get a guy, one person that is going to handle all 10 of those functions very clearly, he is operating at around 10 percent efficiency, and something has to be done to change that.

Mr. GETTYS. Well, I hope your testimony will result in our recommending to the Administrator to develop that kind of approach.

Mr. STEPHENS. Mr. Annunzio.

Mr. ANNUNZIO. I want to thank Mr. King for his contribution. He has brought some expertise to the hearing on this particular subject matter. I have had a little experience in the labor movement and in the construction business and I know that you know what you are talking about, and that it is impossible to meet a payroll without productivity and that when men are lying around at $7, $8, and $9 an hour, it gets to be a pretty costly process. So I also want to thank you for your contribution.

Mr. KING. Congressman, I want to also thank you for arranging the invitation for me to be here. I have watched you unbeknownst to you last week in Washington when you were discussing the housing bill at the Banking and Currency Committee, and you conducted yourself very well.

I would also like to say I am very sorry that——

Mr. ANNUNZIO. I worked very hard last week and that is why I am so quiet today.

Mr. KING. You were not so quiet this morning.

[General laughter.]

Mr. KING. I would also like to say that I am very sorry that black contractors can only get publicity in some of our papers here in Chicago when something bad happens. I noticed that the Chicago Tribune carried this story about Morton, and that is how you probably saw it.

Mr. STEPHENS. Mr. King, I would sympathize with you because most of us Congressmen cannot get anything in the paper unless it is something bad about us also.

Mr. KING. I think it is important to note that he was providing 40-some jobs for black people who might not have had a chance to work.

Mr. ANNUNZIO. Mr. Chairman, that is why we are here. This is the real tragedy. You see, we are aware of that. I have before me statistics to show how much money was given out in my own congressional district by the Small Business Administration, how many jobs were provided and so on and so on, and we are here protecting that interest because we know what the capabilities are.

But the agency will eventually be compelled to go bankrupt. You cannot just be wasting $100 million a year, and not go bankrupt.

Mr. STEPHENS. Mr. Reuss.

Mr. REUSS. I think you are right on target. Thank you very much for helping us.

Mr. STEPHENS. We certainly appreciate you taking the time to be with us today, and please let us have that information in writing.

## STATEMENT OF CLARENCE W. SHOEMAKER, ALEDO, ILL.

Mr. STEPHENS. Mr. Shoemaker.

Mr. SHOEMAKER. I have given you my name and where I live. I might add that I graduated from the University of Chicago Law School, but farming has been the major business because I got out of school just as the depression started and you could not get a job then for love nor money. My father had some farming interest and I had some interest there, but I always did practice law, probate and taxation, mainly.

In 1965 I had to have my hips operated on. I gave up farming and I needed some extra income. My first wife had died after going through four terrible head operations at Mayo, and put two boys through the University of Illinois and one of them through law school.

So I had an opportunity at a bankrupt sale to buy a mill and a grain elevator. Business has always more or less appealed to me in Anewan, Ill. This mill was built in 1964, according to the bankruptcy CPA report. It cost $188,000. Today it could not be replaced for $225,000.

Mr. Nelson, the engineer who designed this plant, told me after I had bought it that there was only two other plants as modern as this. I started in February in 1968 to get a loan from SBA and Mr. Miles turned me down. Well, I looked it up and I said, you turned me down without giving me any substantial reasons. When I pressed him for that, then he said he would consider it. As the time went on he could think of more excuses than Carter has pills. Finally, I solicited Congressman Tom Railsback's office, and Mr. Bailey of his office took it upon himself to help me. Finally, we got it completed in September of 1968 for $70,000, to cut this down $5,000.

I got two very capable men to run the plant, one, Mr. Flaherty, who had had 20 years experience in the grain and feed business, and he said, after he had been there, he said, Mr. Shoemaker, you are going to have to have more operating capital because the feed business requires considerable capital. You have to carry an inventory. Another thing, your customers are livestock men and you have to give them maybe several months' credit. He said, I will go out in the country and sell. I have always been successful in selling farmers feed.

But he said, we are going to have to get an inventory built up first. So I applied for a $25,000 loan, stating my reasons why to SBA, in which you can get that $25,000 without putting up additional security.

Besides the plant—going back, excuse me—I put up $40,000 equity in a farm that I had in addition, and I got turned down, and I kept writing and finally, I got a rather blunt letter from Mr. Dwyer saying that I was getting no more loan and no use writing anymore.

But I kept asking for this loan, stating the reasons why. Also, over this period of time I kept asking for counselors which the law provides. But I never got one counselor. The only man that ever came out of SBA, the Chicago office, was a Mr. Powell, and that was to inform me that I was delinquent. I told him why I was delinquent and if he could help me.

No, he said, he had just come down to get some money. I said, well, I want to know how to make money. Finally, in desperation I called SCORE and they sent a Mr. Rocco from Freeport, Ill., who was a retired road contractor. He told me that he had built over 400 miles of concrete road in the State of Illinois. He investigated the plant very thoroughly, the area and productivity and questioned Mr. Flaherty very thoroughly, and he said he could see why we needed this additional operating capital.

He made two other calls and he said that he could not get Mr. Dwyer interested in my case. I kept putting money from my own accounts until the barrel was dry, as the saying is. Then I heard in October that SBA was going to foreclose on me, and so I filed for an injunction to stop them from doing that in the district court.

Well, I soon learned there that you cannot file an injunction against a Government organization, and in the hearing before Judge Morgan, Mr. Johnson, I see who was here today, was the attorney, and Mr. Powell, and Judge Morgan asked him why I could not get more money. He said Mr. Dwyer was determined not because he said that Mr. Eastman, the banker who owned the bank, or was the president of the bank, wanted to foreclose.

Now why Mr. Eastman wanted to foreclose was this. Four miles east of my plant they had a grain elevator on their hands from the bankruptcy proceeding, and this elevator did not have any mill with it—and for the grain elevator to operate today properly you have got to have a mill. Several prospective buyers have been there and they stopped on the way back and said they were not interested since they had had no mill and said, we would be interested if we would have had a mill like this.

One time when I was in the bank, Mr. Brown, Dallas Brown, asked me if I would be interested in selling my plant. I told him and I put the price of $150,000 to him. Well, he said, that will give us a little more to work on.

Pretty quick right after that, why, the SBA started their foreclosure proceeding against me, and it knocked me low. But being a lawyer, I started to do some research. I felt that I had been dealt with very unjustly, and I found that there were quite a lot of court decisions in law in my favor. One of them is the right to review.

Maybe you gentlemen are familiar with the statute, the right to review, judicial review. So with the decision of Justice Black in regard to the purpose of the SBA, I filed a complaint in the district court at Peoria, and Judge Morgan turned it down, saying, res judicata, that the case had been decided in an injunction hearing. If any of you gentlemen are lawyers, you know that an injunction hearing is not a hearing on the merits. I carried that case clear to the Supreme Court. I have never had much business, but I did carry two cases to the Supreme Court of the United States, and I think that there is a court that is far from doing its job.

loan was to pay debts, taxes, and provide working capital for the company. At that same time, $150,000 was approved for the Morton Tile Co. as a line of credit in accompanying with the first loan. Finally, a $230,000 loan was approved in May of 1973 as an additional line of credit for this company. At the same time that we were helping the Morton Tile Co., the most responsible black periodical that I am aware of—and I compliment it. I think it is one of the finest magazines that any of us could read—called the Black Enterprise, in its February issue in 1974, and this was well after after the problems that we had found about Morton Tile were obvious to us. the magazine was complimenting Morton Tile. But more than anything else, it was showing—and I have underlined the article here and would be happy to give this to the subcommittee if it would be of any help for them——

Mr. STEPHENS. We would be glad to have it for the record.

[The article referred to follows:]

[From the magazine "Black Enterprise" of February 1974]

## NEW DOORS OPEN FOR MINORITY CONTRACTORS

### IN CHICAGO, CORPORATE OWNERS OF NEW BUILDINGS PROVIDE LONG-SOUGHT LEVERAGE FOR BLACK FIRMS

For over a decade, blacks have been struggling to gain a secure foothold in the construction industry but have made only very limited progress. The problem has been to find the point at which pressure can be applied most effectively to the wholly white-dominated construction "establishment." Perhaps it is not surprising that this point took a long time to locate, for it turns out to be almost at the periphery of the construction scene: It is the customers for large construction projects—government agencies in the public sector and major corporations in the private sector—who are most likely to help blacks get into construction and in many ways best able to do so. By comparison, the building unions and the large white construction companies are much tougher nuts to crack.

The foremost reason why pressure on the building unions has proved generally unrewarding of course lies in their notorious and pervasive racism. And even if it were not for this massive barrier, there is the fact that the opportunities controlled by the unions are limited.

Generally, the large white contractors have been more receptive to the idea of a black share in the construction business, at least in principle. Their preferred solution has been to bring black subcontractors into the field. In this way, they would satisfy some of the demand for opportunities for blacks while minimizing the chances of conflict with the unions.

More often than not, however, this approach has amounted to no more than a pseudo-solution. To do business as a subcontractor in the construction field requires financial resources, management strength and a record of past success that the typical small black firm has lacked and has had no way of building up entirely on its own. For such a firm in the construction field, it is not enough to know that a major contractor is willing or even somewhat eager to consider black subcontractors. Its owner is also confronted by such questions as: How will I resolve the cash flow problem that arises whenever there is no money coming in. temporarily, for the work I have done but I must go on paying my workers? Where will I find a bonding company willing to do business with a small, essentially untried outfit and to put up the bonds required whenever I bid on a job, am awarded a contract or place a major order for materials?

Unless it can take advantage of special arrangements tailored to its particular need, the small black firm in the construction field is forced to pass up one subcontract opportunity after the other. And the white general contractors usually have proved unable or unwilling to make any such special arrangement.

This kind of help can, however, be provided by a large corporation financing a major construction project, experience has shown. In Chicago, for example, minority contractors and subscontractors over the last two years have done a significant amount of the work on new buildings put up for C&A Financial, First National Bank, Montgomery Ward, Sears and Standard Oil of Indiana—buildings that accounted for roughly half of all the construction in the city over this period.

The two men primarily responsible for this upsurge of black construction activity in Chicago are Philip Drotning, director of corporate social responsibility at Standard, and Paul King, director of the United Builders Association, a local black group, and also chairman of the National Association of Minority Contractors. To King, it is virtually an article of faith that it is the building owner who holds the key to black opportunities in construction. "The owner has the real power," he explains. "Just as he can say, 'I want Italian marble on the outside of my building, I want blue carpeting, and I want white drapes,' he can also say, 'I want some blacks to work on my building.' "

Moreover, the Chicago experience proves that the corporate owner is in a position to follow through on this kind of general intention. As King describes it, "We sat down with these corporations with a will not just to say, We are going to use some blacks. We asked the hard questions, too: What are the obstacles facing the black subcontractor? How can we get around them so that in fact he can take on some of the work?"

Both black subcontractors and white general contractors, King points out, have been slow to realize that being black and ready to work isn't enough for success in the construction industry. As a small firm moves on toward bigger jobs, the need for sound middle and top management becomes critical, he emphasizes. Without solid management, "your cash flow situation gets all torn up," he notes. "You won't be able to come up with prompt requests for payment for the work you've done, and so you can't collect your money fast enough. Meanwhile, you have your people to pay, and all the time the Internal Revenue Service is breathing down your neck, telling you to get those withholding taxes in."

Deficiencies in financial management are doubly dangerous for the black contractor because they make it more difficult for him to get bank loans, which these days are difficult enough to get as it is. "In the past year," King says, "we've had many black contractors whom we couldn't get jobs because we couldn't identify any source from which they'd get the money to service these jobs." Having the money to sustain him in operation for the duration of a job is as important for the black contractor, King stresses, as knowing how to perform the job.

The principal ways in which Standard, Sears and the other large corporate customers in Chicago have helped black firms over these difficulties are:

By splitting what normally would be a single, large subcontract (for wiring, tiling, carpeting and so on) into smaller units less likely to tax the resources of a minority contractor;

By in effect waiving some of the customary bonding requirements;

By arranging for more frequent payments for construction work.

King considers this last point especially important. Because of the typical black subcontractor's meager financial resources, the normally fairly long period between payments (typically 30 days) holds two serious dangers for him: He may overnight find himself without operating funds either because the general contractor is slow about passing on the money he has received from the owner, as happens often enough, or because he has fallen behind or made an error in his paperwork and therefore cannot establish his claim to payment.

Even the briefest conversation with any of the black contractors working on the current corporate construction projects in Chicago leaves no doubt about the persistence of these financial worries. "We're always just at the edge of unbelievable financial trouble," says Robert Morton, owner of Morton Tile, a six-year-old firm that has a $530,000 contract for work on the Sears Tower (which will be the tallest building in the world when finished). If such trouble has not overwhelmed him, he explains, it is because of a young CPA whom Ray Graham, Sears' affirmative action director, found to handle the company's invoicing and bookkeeping. "Without good controls," Morton acknowledges, "our costs on this project could come to $600,000 and we wouldn't know it until it was too late."

Morton worked in the post office until 1968, installing tile in private homes on the side. That year, he landed his first large contract worth about $10,000, and on the strength of it went into the tile-laying business full-time. Echoing King, he says that his main problem is not finding jobs but getting hold of the money to finance them. On the Sears Tower contract, Morton's problems were eased by Sears' willingness to assume some of the bonding burden and by a guarantee from the general contractor, Diesel Construction, of prompt reimbursement of Morton's outlays for materials.

Explaining the extra assistance Sears has given to firms like Morton's Graham says his company "recognizes the fact that the minority contractor has not been given the opportunities in the past that would have gained him the experience he needs. Therefore we are willing to work more closely with him to provide extra guidance." Graham is optimistic about the long-range prospects for minority contractors in the construction business. "I think the key for the development of the minority entrepreneur lies in the fact that we have established an awareness in the white business community that he represents a need that is vital to our society."

Awareness alone, however, is not enough, Graham concedes. "We still have the transitional period between accepting the concept and making it effective." In the case of the Sears Tower, he explains, this meant the extra effort of seeking out minority firms and encouraging them to bid. At the same time, he notes, the same quality standards and contractual obligations were imposed on the minority contractors as on all others. "I believe the minority contractor is looking for just that," Graham says. "He's not looking for handouts. He's looking for opportunities."

That certainly seems true of Lawrence Woods, the 57-year-old president of Flor-Kare Carpet, which has a $300,000 contract to carpet 51 of the Sears Tower's 110 floors. Flor-Kare got this job largely on the strength of the work it did carpeting one-third of the floor area of the new Standard Oil of Indiana building (the world's fourth-largest structure). Another result of that earlier installation work was a contract, worth over $1,000,000 a year, for all carpet maintenance in the Standard building.

Woods started his business four years ago with a $190,000 loan from the Small Business Administration and with his son Ronald as vice president of sales, his daughter Ann as office manager and his wife Florence as secretary and treasurer. By now, he is operating on a much grander scale. The company currently has 46 employes, including 26 journeyman carpet-layers, and has garnered such business plums as a Flint Kote floor tile distributorship and a contract to supply the Chicago housing authority with tiles. Woods is in a strong enough position to engage in what he calls "courtesy" bidding. "You bid high," he explains, "knowing you won't get the contract, but it's an asset to keep your name out there."

What corporate building owners have done in Chicago for firms like Flor-Kare constitutes a challenge to all companies patronized by blacks, Paul King believes. "Every building that goes up in the United States and is paid for by a corporation largely dependent on black dollars ought to develop not just some vague affirmative action policy but something that says, We want to have blacks working on that job," he declares. "Black contractors have a claim on some of the opportunities on our building project, such a company must say to itself, because we owe that to our black customers."

Mr. DWYER. This company, when the major task of the Morton Tile Co. was to provide tile for the new Sears Co. Tower, which is the tallest building in the world—I am sure all of you from outside of Chicago are aware of that building—it was a sincere effort on the part of the Sears company to work with a minority contractor.

Mr. ANNUNZIO. Mr. Dwyer, I really did not know this. I was just going by the paper, and the paper does not say anything about black or white. So I did not know anything about this.

But is this the same company that tiled Sears, where the president of the company has been in jail for about a year? Is that the same person who came out and got a loan?

Mr. DWYER. I am not certain, Mr. Congressman.

Mr. ANNUNZIO. I am just asking if somebody tiled the new Sears Tower after serving a year in jail and got a small business loan.

Mr. DWYER. No; we are not aware of anything in here that would relate to that, Congressman. But the effort extended to this company on behalf of Sears, Roebuck & Co., the bank, and the bank worked very, very closely with this. It made, it gave us the kind of support and belief at that time that Morton Tile would make it and make it well.

Frankly, Congressman, it is always distressing when they do not, because you have gone along with others in your belief that they will.

field make the decision. As I have said, if two loan officers turned a loan down, I think that is a pretty strong recommendation against it. One of the biggest things that your office was concerned about was whether indeed Mr. Walker had been rehabilitated, and he got a number of endorsements from people saying that he was rehabilitated by some pretty prominent people, as I understand, like the Rev. Jesse Jackson and some other Chicago businessmen. I was intrigued by one of the letters in his file from a businessman here in Chicago, who says, "I have worked and known Mr. Walker for 10 years"—excuse me—"I have known Mr. Walker for 10 years. I have always known him to be sincere, honest, and trustworthy individual the of highest intelligence."

The part that gets me is the "sincere, honest, and trustworthy." This is a man who just came out of serving 2 to 7 years for putting a gun to three people's heads and taking their pocketbooks. But granted that he can reform himself, now let us go on one step further. The loan is in default, is it not?

Mr. DWYER. It is.

Mr. PRINS. Now, the "sincere, honest, and trustworthy" individual, I am sure he is trying to make attempts to make good his default to the Government, is he not?

Mr. DWYER. Unfortunately, I have seen no evidence whatsoever that he is making that effort.

Mr. PRINS. Well, unfortunately you cannot even find him to give you a statement, is that not correct?

Mr. DWYER. That is correct.

Mr. PRINS. In fact, every time you sent him a letter asking him what he is going to do about the loan he fails to answer you?

Mr. DWYER. That is correct.

Mr. PRINS. In fact, he is thumbing his nose at the Government now.

Mr. STEPHENS. Is he back in jail again?

Mr. DWYER. No.

Mr. PRINS. He is now the president of another publishing company, an outfit called National Publications Sales Agency.

Now, let us talk a little bit about this book. One of the criteria was that he could publish a directory, but he could not editorialize. Is that correct?

Mr. DWYER. That is correct.

Mr. PRINS. He agreed that he would not editorialize. Did he editorialize?

Mr. DWYER. He did.

Mr. PRINS. He did editorialize?

Mr. DWYER. In his second issue.

Mr. PRINS. In his second issue. Did SBA then ask him to stop?

Mr. DWYER. Yes, we did.

Mr. PRINS. Did he stop?

Mr. DWYER. No.

Mr. PRINS. He continued to editorialize. Well, if a man continues to ignore instructions, would that not have been the basis to say, hey, the guy is not doing what we tell him to do and maybe it is time to call this loan?

Again, it is easy for me to sit up here in hindsight. But is this the kind of telltale sign that maybe someone should have started looking at it?

EXHIBIT II

**UMSTEAD MANAGEMENT & CONSTRUCTION CO.**
CONTRACTORS · BUILDERS · PROPERTY MANAGERS
LICENSED · BONDED · INSURED
10605 CHESTER AVE · CLEVELAND, OHIO 44106 · (216) 721-7941

June 22, 1981

Mr. Paul King, Chairman
NAMC Labor Committee
330 South Wells Street
Suite 900
Chicago, Illinois 60606

Dear Paul;

This letter is in response to our phone conversation concerning my personal experience with the SBA 8a program.

I have been helped greatly by this program. One of the reasons I support NAMC, is because this organization fought and helped get this legislation SBA 8a program passed under the Nixon Administration.

I have been in the program over 5 years and have been helped with bonding. My 1st big bond for 224,000 was backed by SBA. After completing this project I was able to get bonding straight out with Travelers Insurance Company for several years, until word came down to weed out small contractors. I was cut off for no reason at all I could get up to 500,000 with no SBA Guarantee, now I can only get up to 500,000 with an SBA Guarantee.

As for set aside jobs I did not get too many of any size until 1980, when approximately 665,000 worth of work was given to me. 600,000 worth was in a building maintenance contract the other was a construction contract.

The only way I was able to fulfill these contracts was with an SBA Loan guarantee of 145,000 operating capital, as no bank would loan me the money without a guarantee by the SBA from my own experience I can say the SBA program have helped me immensely even though I have had a few bad experiences with all the paper work that is required to continue in the program.

I will say if I can continue in the program for another 3 years with the projected jobs and other help I expect to receive I think I will be ready to step down and allow some other contractor to take my place.

So I will say where by the program like all other government programs may have some abuses or some short comings it has been a great help to minorities and have allowed some of them to compete in the main stream. This is what I hope to be able to do.

Sincerely,

John E. Umstead

P.S. My maintenance contract did not require a bond because of a good track record.

JU:ar

EXHIBIT III

RECEIVED
MAR 9 1981
UBM, INC.

1 23Feb81 PP PP UU

Yes

DISTENGR OMAHA NE //MRODL//

MR. JAMES A. MAESTAS, ASST DIST DIR
MSD, DENVER DIST SBA, 721 19TH ST.,
DENVER, CO 80202

INFO: REGIONAL ADMINISTRATOR, RGN VIII
SBA, 1405 CURTIS ST., DENVER, CO 80202

UNCLAS

SUBJECT: Pilot Program Project, North Boundary Expansion, Rocky Mountain Arsenal, Denver, Colorado

1. Your message concerning untimely response to questions and submittals on subject contract received 1600 (CST) 20 February 1981. My Deputy attempted to contact you as meeting was previously planned for 1300 24 March 1981 at Chatfield Resident Office in Denver. Advised that you had not been in and that Mr. Valdez had already departed. The principal addressee, Area Engineer Colonel Weinert, received your message by same telephone message service and his attempts to contact you were also to no avail. Perhaps message was incorrectly dated or delayed but for concerns of the extent you stated, suggest you phone

Chief, Engrg Div
Chief, Const Div
Chief, Proc & Supply Div
Area Engineer, Rocky Mountain Area

LARRY L. FULTON, LTC, CE, DEP DE/MIL
CONST, MRODM, 3903, 23 Feb 81

LTC Fulton/kr/3903
COL Stipo

Evans/Const Div
Asleson/Engrg Div
Conners/P&S Div

V.D. STIPO, COL, CE, DIST ENGR,
MRODL, 3900, Contracting Officer

UNCLASSIFIED

Colonel Weinert or LTC Fulton to facilitate communication and follow-up by message if desired, at least have someone available to discuss the matter.

2. My Deputy gave a message to your people concerning the meeting and the Area Office was attempting to contact Mr. Alvarado in the afternoon of 20 February. Meeting representatives will include a member of this, the area, and the field office. They, with your contractor representatives, will review remaining questions and procedures.

3. Numerous questions have been answered since the pre-construction conference of 26 January. My 5 February message to the area office answered the ten (10) questions of your contractor's 29 January letter. My 13 February message answered the five (5) questions of your contractor's 2 February message. Of the three areas mentioned in your 20 February message, one became known 17 February.

3 6 UU

It and the others were answered from this office on 20 February. The field office was attempting to notify the contractor late on 20 February. Considering these responses and the numerous phone responses in the past two weeks, your charge of untimeliness is totally inappropriate.

4. I am sure you are aware that submittals to be reviewed by the AE are to be answered within 15 days of receipt. This normally would correspond to 21-day turn-a-round for your contractor. To my knowledge he had had a reply in every case. In the case of flow meters, a reply has been given, however, we are considering an alternative.

5. What is disturbing is that your contractor is apparently being told by his supplier that an item is not available or will require excessive time to acquire. He has asked us for more names of suppliers which we've provided. He's also desired to provide materials other

than specified. A contractor often must pursue several sources before requesting changes to the contract specifications. It is for these reasons my staff has recommended and I have approved a meeting in an attempt to answer questions even more timely. Your implication that we are not giving special attention is unfounded and unwarranted.

6. The trend I see developing reconfirms the previously agreed need for additional management assistance. I'm sure you recall the concerns several have had for the technical and management expertise required to accomplish this project. We were fully led to believe by you, other Denver SBA and Washington SBA representatives that such management/consultant assistance would be provided. It is not!!

7. The previous paragraphs depict a concern we have addressed previously. SBA Washington's letter of

25 March 1980 states that UBM Consultants represent SBA in matters pertaining to subject project. UBM has been involved in the project from December 1979 through the seven month proposal and negotiations ending in December 1980. At the final negotiation meeting of 19 December, SBA representatives including Mr. Roy Henry, reaffirmed that Alvarado Construction would be provided additional management assistance. On 12 January 1981, Fran Willet, confirmed to my deputy that a contract with UBM was being considered. On 26 January 1981, Mr. Roy Henry confirmed that the contract was being processed. This was two days after the pre-construction conference, 14 days after the notice to proceed, and a month after contract award. Every indication was made to us that such needed and agreed assistance would be provided.

6. UBM was called on 20 February and asked why they were not involved in obtaining supply sources and assisting

the contractor. Mr. Paul King stated that although they were represented at the 20 January pre-construction conference, they had no authority or contract to continue. He advised that such a contract has been considered since September 1980. Mr. King also stated he has and has had a team fully prepared to assist.

9. A great deal of effort has already been expended in getting this project to the contract stage. SBA has persisted that this project remain in the 8A program. We've agreed yet it is incomprehensible that the promised and necessary assistance is not yet authorized. Price may preclude the contractor from requesting your help but from the number and nature of the questions, it is needed. I am as concerned about a successful 8A program as I am about this critical construction project. Request earliest consummation of the consultant contract.

Mr. MITCHELL. Our next witness is Mr. Joseph Williams, president of Arrow Services and also president of the Chicago Regional Purchasing Council.

Mr. Williams, thank you for taking time out to be with us this morning. We have your entire statement. We can submit it in its entirety for the record. You can read it if you so desire.

## TESTIMONY OF JOSEPH A. WILLIAMS, PRESIDENT, ARROW SERVICES, AND PRESIDENT, CHICAGO REGIONAL PURCHASING COUNCIL

Mr. WILLIAMS. Congressman Mitchell, Congressman Savage, and Congressman Fary, I am very happy to be here this morning to speak to you. I feel like this is old home week. I know all of you up there.

Congressmen, I am going to be brief. As president of Arrow Services and president of the Chicago Regional Purchasing Council and as a member of the small and minority business community in Chicago, it is indeed a pleasure for me to welcome your hearings on small business, declining options, and new approaches, to Chicago.

Many of my friends are here today to address you on the varying problems facing small and minority businesses. My role is to talk about the problems from the perspective of a longtime participant in, and recipient of, minority economic development programs.

By my background, I think I am qualified to speak because in 1968, at the very first Opportunity Fair hosted by Western Electric, I was there. In 1971, at the Chicago Economic Development Corp.'s Small Business Achiever of the Year, I was there also. In 1978, 1979, 1980, I was the regional finalist, small business subcontractor of the year. In 1980, I was a delegate to the White House Conference on Small Business. I was there. Today, as the only minority businessman to head up a regional purchasing council in the entire United States, I am here.

I believe by virtue of my efforts, my sweat, and my continuing commitment to see small and minority-owned businesses continue to survive, grow, and prosper and provide continued stability that is so desperately needed in this country, my views do represent a segment of the business community that needs to be heard.

Now, a healthy economy is fueled by productive jobs. This basic principle has been with us from the early stages of our country. Congress itself has noted small business' job-making capacity. The House subcommittee, chaired by Republican John Breckinridge just a few years ago, concluded in its report that in the prior 8-year period 67 percent of all new jobs created stemmed from small businesses.

Even more impressive is the 1979 study, "The Job Generation Process," by David L. Birch, Massachusetts Institute of Technology, on a grant from the U.S. Department of Commerce's Economic Development Administration. They surveyed 5.6 million establishments, or 86.7 percent of the total, over the timespan of 1969 to 1976, and found firms with 20 or fewer employees accounted for 66 percent of all the new jobs in the United States.

Small, independent firms accounted for 52 percent of all the existing total jobs. Medium- or large-sized firms produced few new jobs. Small firms contributed all new jobs in the Northeast. Young firms generated 80 percent of all replacement jobs.

Individual firms, and not the economy, create jobs. And smaller companies are aggressively seeking out most new operations while large firms redistribute operations.

Now, the only thing missing about this whole above excerpt from "Small Business: America's Economic Answer" is the word "minority."

Most minority businesses are small businesses. Minority businesses are doing the same thing that small businesses are doing. Minority businesses are having the same kinds of problems that small businesses are having. And minority businesses need the same kind of help that small businesses are beginning to receive.

If I had to list in priority the areas that are most detrimental to the maintenance and growth of small and minority businesses: No. 1 would be capital.

Of the 15 top priority items voted on by delegates attending the White House Conference on Small Businesses, 5 proposals were pertaining to capital formation and retention.

At a recent minority business enterprise seminar sponsored by the minority business subcouncil of the Chicago Regional Purchasing Council, 64 percent of the participants indicated that access to short-term working capital was their most pressing need.

A close second to gaining capital is maintaining it. Small and minority businesses are harder hit than most of us by the two-edged sword of inflation and high interest rates, with both affecting its capital formation ability.

Venture capital is less and less available because taxes take much more than their fair share. In 1969, a business with receipts of $50,000 to $100,000 paid out 18.3 percent in taxes. In 1974, the rate increased to 30.1 percent, while a business with receipts over $1 billion only paid 11.8 percent in 1969 and 11.5 percent in 1974.

Given that capital formation and capital retention are among the biggest problems facing small and minority businesses, one bill of interest in Illinois is House bill 1158, which represented the greatest relief of some of these problems as it called for the formation of an Illinois Small Business Development Authority which, among other things, would have had the power to generate revenue to make available to small businesses capital at favorable rates on acceptable terms. Again, minority businesses need to be included in this in some special way.

I should say to you that this bill has been tabled for 1982, but we call it a model here in Illinois and we think it is something that could be used throughout the country as a way of providing capital to small businesses.

Once a business has obtained the capital it needs to run it efficiently, good management is essential. According to Dun & Bradstreet's "Analysis of Business Failures," poor management is directly responsible for 50 percent of all bankruptcies. In minority-owned businesses, the number may be closer to 90 percent. Individuals who lack experience and/or formal training in business management have a poor chance of handling the problems that arise or developing a strategy for expanding their businesses.

Although this problem is not peculiar to the minority business community, for us it tends to be a special problem because of so much discrimination in attitudes, opportunities, and regulations that bar many of the would be great managers from getting the best type of training available.

We need increased opportunities for training in financial management, marketing, general management consulting, long-range planning, management in information systems and data processing, and industrial engineering. These would be assets to the growth of small and minority-owned firms.

Hand in hand with management assistance would be technical assistance. Technical assistance from professionals such as industrial engineers, accountants, marketeers, production specialists, and personnel can help small and minority businesses continue to prosper in spite of problems like inflation.

Their greatest contribution, however, comes at a time when there is a need for expansion. Technical assistance would be an invaluable means of keeping the initial cost at a level which could make the difference between continued success and failure.

And, Chairman Mitchell, I want to speak to this personally because we have just completed a project that is going to allow us to expand our business in the city to create approximately 125 new jobs. It is a large project and I would have to say with candor to you that without the assistance of the Small Business Administration locally, through the district of Jack Smith, without the assistance of the Regional Director of MBDA—in this case the present Director is Stanley Tate—it would have been impossible for us to complete this task.

It is difficult to appreciate the amount of cost that can occur between accountants, lawyers, marketing, and specific industry studies that are necessary, and if you don't have that capital yourself, if you don't have that resource available within your own capital base, if you have to go out and find it, it is almost impossible—even with the resources, even with the resources of MBDA and SBA.

Looking at an ending projection of cost, we have spent approximately about $50,000 ourselves just in doing the technical and management information gathering necessary to meet all the requirements of all of our lenders, the Federal Government, and everybody else. So it is almost impossible to dramatically expand the business unless you do have the assistance of the Federal Government in some type of technical way.

Finally, the small and minority businesses need opportunities to gain their fair share of the vast market sector available from the Federal Government.

Procurement agencies should break down large requirements, including those for research and development, into smaller parts, where feasible, to permit solicitation from and award to small and minority businesses. The Federal Government should contract out supplies and services to small and minority businesses.

The Office of Federal Procurement Policy should develop a new set of procurement regulations applicable to procurements of specified amounts from all businesses.

The second-tier regulation should eliminate clauses, procedures, reporting requirements, et cetera, applicable to large systems procurement which are currently imposed on small businesses as well and, to the extent possible, apply to subcontracts with small and minority businesses.

Small and minority business is good business. That small and minority businesses continue to exist at all under so many adverse conditions would seem to say that a little help in any of the abovementioned areas would go a long way.

Given that the studies mentioned in the initial portion of my presentation, however, show that the majority of the jobs and positions so badly needed for our Nation's economy for the most part are created by small businesses—and minority businesses are small businesses—help for us should be a priority for the Federal Government, State government, local government, and major private concerns.

Let me close my prepared comments by saying that Frank Brooks is here and I think that everybody in Chicago knows Frank Brooks, and I could not complete any analysis of the success and progress of minority economic development without making a comment about him and CEDCO, because I don't think that we would have economic development as we know it today in Chicago without the Chicago Economic Development Corp.

Mr. MITCHELL. I certainly concur with the latter part of your last statement you just made, and I have a couple of questions. But let's get Mr. Fary to raise questions first, then Congressman Savage.

Mr. FARY. Mr. Williams, let me commend you for a well prepared and concise statement.

I have no questions, Mr. Chairman.

Very well, very well done.

Mr. MITCHELL. Congressman Savage?

Mr. SAVAGE. I have, Mr. Chairman, only one question.

As my distinguished colleague, John Fary, has raised, the administration's 10-5-3 business tax changes—I just wondered, do you have any opinion regarding these proposed changes, what effect they may have upon your recognition that you said venture capital is less and less available to small businesses because taxes take much more proportionately from small than from big businesses.

Do you have any opinion with regard to that so far as the administration's proposed 10-5-3 is concerned?

Mr. WILLIAMS. My general impression from those people I have talked to, 10-5-3 is not going to be very helpful to small businesses. We understand from our sources that it will be very helpful to large concerns. For small businesses it's not going to be large because our depreciation schedule and our depreciation needs do not in any way compare with the Chrysler Corp. or General Motors. To have a tax advantage to us it would have to be accelerated. Some people have talked about 100-percent depreciation; the first year being a more viable way for small businesses.

And I think from our point of view we definitely feel that although 10-5-3 is better than what it was before and we accept that, we do not describe it as one of those things that is going to really make a big difference for us.

Mr. SAVAGE. So would you argue then that the 10-5-3 proposal would exacerbate this problem with regard to venture capital that you mentioned?

Mr. WILLIAMS. No.

Mr. SAVAGE. You understand what I am asking you, Mr. Williams, is that if the 10-5-3 program further favors big business with regard to tax changes——

Mr. WILLIAMS. Right.

Mr. SAVAGE [continuing]. Then would that not—in the point of what you have just pointed out, would that not then worsen the problem?

Mr. WILLIAMS. I would agree.

Mr. SAVAGE. Thank you, Mr. Chairman.

Mr. MITCHELL. OK.

I know you have not had an opportunity to see it yet because it is not yet completed, but I think you and other small businessmen will be greatly satisfied with the proposal that is coming out of the House Ways and Means Committee, the tax bill.

I have been working very closely with Mr. Rostenkowski and others on that committee, and I think you are going to find a lot more targeting to small businesses under that version, which should be forthcoming hopefully next week.

You are in a dual role as a businessman and as the first black president of any regional purchasing council in the country, and I congratulate you on that.

For the Chicago Regional Purchasing Council, in 1978 did that council have goals for minority businesses and did it reach those goals?

Mr. WILLIAMS. Yes. It exceeded——

Mr. MITCHELL. What were the goals?

Mr. WILLIAMS. In dollars and cents I think it was about $60 million and I think we did about $72 million. Chicago-based companies only.

Mr. MITCHELL. That's in 1978?

Mr. WILLIAMS. Right.

Mr. MITCHELL. Then in 1979 you started at a base of $72 million because you've exceeded your goals, did you?

Mr. WILLIAMS. Right.

Mr. MITCHELL. What was your other goal for 1979?

Mr. WILLIAMS. It was, I think we came away with about a 15-percent increase, and we actually ended up with about a 20-percent increase in 1979.

Mr. MITCHELL. OK. Which would move it to roughly close to $90 million?

Mr. WILLIAMS. Yes.

Mr. MITCHELL. Have you established—your goals for 1980, what were they?

Mr. WILLIAMS. Our goals for 1980 were a 15-percent increase again, and we ended up with about a 12.3-percent increase.

Mr. MITCHELL. Which comes out to about——

Mr. WILLIAMS. I think about a $101—I think in real dollars, Congressman, I think it was about $101, $102 million from Chicago-based companies.

Mr. MITCHELL. $102 million for Chicago-based companies, and these are minority companies?

Mr. WILLIAMS. Right.

Mr. MITCHELL. And how do you define minorities?

Mr. WILLIAMS. In Chicago, we have gone through a very agonizing process over the last 6 months and have come back and redefined again what we call a certified minority firm. We think that our rules now are probably better than any in the United States for us to identify what a minority firm is.

Mr. MITCHELL. Are you including blacks?

Mr. WILLIAMS. Hispanics, right.

Mr. MITCHELL. American Indians, Aleuts?

Mr. WILLIAMS. Right.

Mr. MITCHELL. Any other categories?

Mr. WILLIAMS. No. There is one other category, but people like Hasidic Jews are not a part of our program. Women-owned businesses, unless they are minorities, are not a part of our program.

Mr. MITCHELL. OK. I thank you very much. We appreciate it.

Ms. Eleanore Fredrick. Come right on up, please.

Let me deviate just a little bit while you're coming up. Is Mr. Nelson Carlo here? I understand he ran into some difficulties and can't make it.

Is Ms. Irma Claudio here?

Ms. **Claudio**. Yes.

Mr. **Mitchell**. Ms. Claudio, if you would like—I don't know what kind of time constraints you have. We have his testimony and we can submit it in its entirety for the record, or do you want to testify for him?

Ms. **Claudio**. I would like to testify for him.

Mr. **Mitchell**. You would like to testify for him? OK, fine.

Ms. Fredrick, we have a copy of your prepared statement also. I would recommend that you just submit it in its entirety for the record and that you speak to the major points in your statement.

## TESTIMONY OF ELEANORE L. FREDRICK, CPA, CHICAGO HOOK-UP OF BLACK WOMEN AND WOMEN OF COLOR

Ms. **Fredrick**. Thank you, Mr. Chairman, and other members of your committee.

Mr. **Mitchell**. I am having some difficulty hearing you, so I assume the others in the back are. I'll have to ask you to talk directly into the microphone and project as much as you can.

Ms. **Fredrick**. All right I will. Thank you.

I will ask that my prepared statement be submitted into the record as written.

Mr. **Mitchell**. Without objection, it is submitted for the record.

Ms. **Fredrick**. And I would like to speak to specific points that I have made in it. It is quite short, as you see. It is based on my experience of some 25 years as accountant and CPA, and the 25 years of dealing with the Small Business Administration in Chicago.

It states about loan packages being cut, when they are submitted for specific amounts, to a lower amount that is inadequate. This causes failures. Many of the arguments against the Small Business Administration's programs and policies have been the multitude of failures, these failures being caused by the SBA themselves in cutting loans that have been prepared by lawyers, CPA's, people in marketing, bank officers and the like by staff persons who do not know what they are doing.

No. 2, that the people who pass on these loans are neither knowledgeable in the field of accounting or marketing, have ever worked or managed or owned a small business. They read these loans based on the papers and how they are filled out, whether they're easily read, whether the figures make sense to them, whether the i's are dotted and the t's are crossed. Then they cut them down and wonder why the business is not able to repay the loan.

A business must stay alive for 3 years, and after 3 years it must be able to float on its own, financially. It must have a cash flow at the end of 3 years, and projections must be made so that at the end of a 3-year period there is still cash flowing. If the money is going to be used up within 1 or 1½ years and the cash isn't going to flow for the 3 years, the applicants are not going to be able to repay the loans.

The SBA is not making enough direct loans. The banks are being used to do the work because many of the SBA staff are not knowledgeable and in many cases do not know what they are doing. They expect the banks to do the paperwork, the banks to approve the loans, and the banks to supply the money, but the SBA to make the final decision. For this reason many of the banks have dropped the SBA program. In Chicago you will find only your smaller banks using the program, the larger banks feeling that the program is too costly to administer. It is a very poor policy when a bank must administer a Government program, and after doing so a person at SBA has the right to tell the bank they are loaning too much money and cut it down.

I think that is, in effect, most of what I have covered. The interest rate being 20- and 21-percent prime rate, when 2 to 3 percent is added for an SBA loan, there is no way a small businessman can pay back a sizable amount at such rates.

Direct loans can be made at lower amounts. I think they can be made as low as 12 percent, which is 8 percent difference, sometimes 10 percent, and should be utilized.

In addition to this I would like to state that in August 1980, one of my clients had an SBA loan approved. The payments were to start in November 1980, but the guarantee and the payout for the loan was made in July 1981.

Thank you.

[Ms. Fredrick's prepared statement follows:]

## Prepared Statement of Eleanore L. Fredrick, CPA, Chicago Hook-up of Black Women and Women of Color

I, Eleanore, L. Fredrick, a Certified Public Accountant licensed in Chicago, Illinois, and having worked as an accountant in the area of small business for 25 years, 10 years with Schwartz, Kuhn & Sonderling, Certified Public Accountants, 5 years with Washington, Pittman and McKeever, Certified Public Accountants and 10 years as Eleanore L. Fredrick & Associates, Ltd., Certified Public Accountant; because of my experiences with the Small Business Administration and my 25 years of experience in Chicago with small business, I offer this testimony.

That I have made small business packages for small business applicants that were either rejected or amount of the loan decreasd, the interview having been made by secretaries and the loan decisions made by officers who have no educational knowledge of accounting or have ever managed or operated a small business. Because of such unknowledgeable help, good applicants are rejected because I's are not dotted and T's are not crossed, and bad loans are made to people who submit excellent packages but cannot run small businesses.

When a qualified Certified Public Accountant who has worked in small business many years states that a projection shows that $50,000 is what is needed for a specific business to survive the first three years of business (New businesses generally incur losses for the first three years) and the businessman is offered $25,000 and no more, the businessman will almost always accept the lesser amount. It is to be expected that this will be a bad loan for the applicant will be unable to repay the $25,000. However, the $50,000 would have put them on solid ground, given them time for the business to develop and prosper so that every dollar of the loan could be repaid. When secretaries, clerks, and employees with no knowledge of accounting or business are allowed to make decisions based on some arithmetical equation, failure is inevitable.

Many banks have dropped the Small Business Administration loan program because of the time, effort, and cost involved in administering the program, only to have loans which they have approved rejected or cut down and thus doomed. Less than 15 percent of all approved SBA loans in the Chicago area are direct loans. These direct loans are made in very small amounts. The staff of the Small Business Administration is not prepared to do the work which they expecet the banks to do.

In past years 20 percent interest rate in Chicago was considered "juice", an exorbitant rate that most small businesses could not repay and thus organized crime took over these businesses. Now Small Business Administration charges 2 to 3 points over a prime rate of 17-20 percent knowing that small business cannot repay loans at these rates. Again I say that less that 15 percent of the loans made by the Small Business Administration are direct loans on which a much lower interest rate may be charged. Primarily the reason is that the Small Business Administration staff cannot do the work they expect the banks to do. Not that there are no qualified people, but there are so few qualified people. The staff as a whole does not have the knowledge to prepare these loans, yet they consider this same unknowledgeable staff able to make decisions on the future of small businesses.

Fifty-five percent of our labor force work for small business. This whole country's economic system depends on the survival of small business. Unemployment is running rampant because of the deterioration of small business. If the practices of the Small Business Administration are not radically changed, we will continue to see store fronts boarded up, long unemployment lines, and a gradual deterioration of our communities.

Mr. MITCHELL. Thank you.

I just have to cast a little more gloom on the picture.

If the present legislation that is being considered by the House and Senate Conferees on Small Business is accepted as an item in the conference, I greatly fear that the direct loan interest rates will go up to 15.5—prevailing Treasury rates. I argued adamantly against it. I think it's going to hurt us; I think it's going to hurt across the board in terms of small business.

Out of your vast experience in this area, what has been your experience with bank participation loans? You say a number of the banks have dropped out because of the paperwork, but throughout the year since this program has been in effect have the banks been: (a) generally cooperative; (b) have not participated; or (c) negatively fighting against this program?

Ms. FREDRICK. Not some of the banks that I have dealt with downtown, or any of the small banks that I'm aware of. They have not been fighting the program. In fact, originally, almost every bank in the city of Chicago had the program.

But when a bank puts together a package for $200,000 or, let's say, just $50,000, a small bank or a large bank for $250,000 or $500,000, they have their staff to work up those projections and papers, the SBA either rejects it or reduces it—and they know it will turn into a bad loan—they naturally do not want to participate in such a program.

Mr. MITCHELL. All right. Then, in general, am I right in assuming that if there is bank participation right now in Chicago with the SBA program, it is generally the smaller banks?

Ms. FREDRICK. Yes; it is generally the smaller banks.

Mr. MITCHELL. I agree that that is just poor management and poor judgment, to ask a bank to set up a loan, and then undercut it.

What would be your recommendation to avoid that? What would you recommend to us as a committee to prevent the SBA from lowering what would be a realistic loan package made by a bank?

Ms. FREDRICK. Well, I would have to go with the people who prepared the package. If it was a bank and they had approved it, if the person has with them a lawyer and a certified public accountant who have also added their approval to this package, if the bank, the marketing people, and the accounting people believe that this is the amount of money that is necessary, then the loan should be either accepted or rejected.

Mr. MITCHELL. Then it ought to be mandatory on SBA that, given all the factors that you have indicated, once that bank loan comes through, that they just accept it because it has gone through the mill and it has been looked at by the best authorities. Is that correct?

**Ms. Fredrick.** Well, not just accept it. there are other factors that might cause them to reject it. Perhaps in the background of the person or in the background of the business——

**Mr. Mitchell.** But I am talking about just the money proposal.

**Ms. Fredrick.** Yes; they should accept it.

**Mr. Mitchell.** I am somewhat inclined to agree with you, simply because of the money constraints that are imposed. Many banks don't want to make these loans anyway, and I think they would be supercautious in establishing the money limits for the loan package.

**Ms. Fredrick.** That's right. They are.

**Mr. Mitchell.** Congressman Savage?

**Mr. Savage.** Only just to pursue this a bit further, Mr. Chairman.

I could see the role of the bank or the judgment of the bank, since the bank is involved to the extent of some risk, but often the attorney and the accountant may be actually agents of the applicant for the loan; is that not right?

**Ms. Fredrick.** They generally are agents of the applicant for the loan.

**Mr. Savage.** What I am wondering is, you would not want to impose the opinion of those who represent the applicant on SBA, would you, in terms of its decision regarding the loan?

**Ms. Fredrick.** No; I would not. But most certified public accountants, by virtue of their being CPA's, must be independent.

**Mr. Savage.** Thank you, Mr. Chairman.

**Mr. Mitchell.** Mr. Fary?

**Mr. Fary.** No questions, Mr. Chairman. I do like your testimony, Ms. Fredrick.

**Ms. Fredrick.** Thank you very much.

**Mr. Mitchell.** Thank you very much for taking the time. You probably work on Saturdays, don't you, in the office? I hate to have these hearings, because it always means we are taking people from their business, and I know how important it is to be there. Therefore, I am especially appreciative.

What I propose to do is to try to cover the next three witnesses before we break for lunch. We talked about maybe 12:30 for lunch. I would like to hear Mr. Carlo's testimony, and then Mr. Bates, and then the representatives from the regional and district office of SBA. That is kind of a tight timetable. I guess what I am suggesting is that you be as succinct as you possibly can in making your presentation.

## TESTIMONY OF IRMA CLAUDIO, GIVEN ON BEHALF OF NELSON CARLO, PRESIDENT, ABBOTT PRODUCTS, AND MEMBER, BOARD OF DIRECTORS, NATIONAL ECONOMIC DEVELOPMENT ASSOCIATION OF ILLINOIS

**Ms. Claudio.** Thank you.

Mr. Carlo is unable to be here this morning, and he has asked me to present this statement. I do request that you enter the prepared statement as presented to you in the proceedings——

**Mr. Mitchell.** Without objection, it will be so entered.

**Ms. Claudio.** Congressman Mitchell, Congressman Savage, Congressman Fary, ladies and gentlemen, my name is Irma Claudio. I am presenting this testimony on behalf of Nelson Carlo. Nelson Carlo is a member of the board of directors of the National Economic Development Association of Illinois, and president of Abbott Products, an 8(a) certified metal fabricator located in the southwest side of Chicago.

I appear today before you to present comments on the issue of small and minority-owned businesses in region V, and particularly in the Chicago area, on behalf of the constituents and directors of NEDA. NEDA of Illinois is a local business resource center working predominantly in the Hispanic business community in areas of loan packaging and general business counseling.

Although we are seriously concerned with the conditions of the total minority business community, we are gravely worried about the situation of Hispanic-owned businesses in this area. My comments are directed at how the Small Business Administration programs are impacting on the situation of Hispanic businesses.

I must qualify these comments by stating that it was particularly difficult to gather objective and comparable data to substantiate the conditions of Hispanic-owned firms in Chicago. It was especially difficult to assess from available information the degree of participation of Hispanic businesses in Federal programs and the impact that these programs have on these businesses.

While myriad statistics and reports are available, the many inconsistencies and changes in categories do not permit their factual analysis and application. For example, the SBA in quantifying its work reports in some instances by region, in other cases by State, at times by industry or cases, with very little uniformity and many inconsistencies.

How can Government formulate policies and programs that effectively address the needs of Hispanics without this information? No doubt, this unavailability of current and meaningful data is a serious obstacle to the development of our businesses.

However, the most conservative and accurate assumptions have been made herein based on the information available, or knowledge of the area and the subjective input of Hispanic business owners.

Several facts are evident. Hispanics in Chicago are underrepresented in the number of small businesses and in the volume of operations. They are underrepresented relative to the total population of the Chicago area. More importantly Hispanic businesses in Chicago also show marked underdevelopment relative to Hispanic businesses in other areas of the Nation.

Based on the 1980 population census, there are 580,592 Hispanics in the Chicago SMSA. This figure represents the fourth largest concentration of Hispanics in the United States. Only Los Angeles, New York, and Miami have a higher incidence. Based on the 1977 Survey of Minority Owned Business Enterprise, there are 2,117 Hispanic firms in the Chicago SMSA. These firms generate annual gross receipts totaling $105.7 million. Nationwide, there are 219,355 Hispanic businesses with annual gross receipts of $10.5 billion.

When we look at the total number and sales volume of Hispanic firms, the Chicago area ranked 13th in the number of businesses and 14th in total sales. That is to say, 4 percent of Hispanics in the

United States live in the Chicago area, but a mere 1 percent of all Hispanic business are based in this area.

These Chicago-based firms account for only 1 percent of the total Hispanic sales in the Nation. Therefore, Hispanic businesses in the Chicago area are four times less developed than Hispanic businesses in other cities relative to the size of the Hispanic population.

It is thus obvious that Chicago has not been fertile ground for Hispanic business development, despite the good industrial and business conditions that exist in our city, and the many federally funded business assistance programs in this area. It is our opinion that the underdevelopment of Hispanic businesses in Chicago is in part due to the underpromotion of Federal programs among Hispanic business owners. Hispanic business owners in Chicago are not receiving a proportionate share of the resources being expended in this region.

Mr. **Mitchell**. May I interrupt you just a moment? You are saying underdevelopment is due in part to the underpromotion——

Ms. **Claudio**. Yes.

Mr. **Mitchell** [continuing]. Among Hispanic owners. Are you saying that the Hispanic business owners are not disseminating the information?

Ms. **Claudio**. No. That the SBA——

Mr. **Mitchell**. That the SBA is not.

Ms. **Claudio**. Exactly.

Mr. **Mitchell**. All right.

Ms. **Claudio**. Let us look, for example, at the Hispanic participation in the Small Business Administration's 8(a) set-aside program, a program that we consider vital to minority business development. Based on 1980 figures, of the 53 companies that participate in this program in Illinois, only 12 are Hispanic owned. Of these 12, 11 are classified as Spanish American and 1 as Puerto Rican.

To make a comparison between the level of participation in Illinois versus the Nation, 452 companies out of the total 2,111 that participate in the program nationwide are Hispanic owned. Expressed another way, in 1980, Hispanic businesses comprised 22.6 percent of the 8(a) clientele in Chicago and 21.4 percent of the clientele nationwide. These percentages are not disparate, suggesting a low level of Hispanic participation in the program both locally and nationally.

We must also bear in mind that being 8(a) certified does not guarantee business. For example, out of the total 2,111 firms registered in 1980, only 1,404 or 66 percent received actual contracts in 1980. Figures are not available for contracts awarded in Illinois.

However, extrapolating this percentage and applying it to the Illinois area, we can assume that 35 out of the 53 8(a) certified firms generated work in 1980. Applying the same to Illinois Hispanic-owned firms in the program, we can assume that a maximum of 8 out of the 12 were awarded contracts in 1980.

I must comment in saying that is a very conservative estimate.

Mr. **Mitchell**. Let me again, without any attempt to cut you off, but we entered the entire testimony in the record. It is my understanding that you were going to speak to the highlights of your testimony.

Ms. CLAUDIO. I am in a position where I cannot really do that, seeing that I am representing Mr. Carlo, and he did not instruct me to do that.

Mr. MITCHELL. That is OK. Go on.

Ms. CLAUDIO. To ascertain the actual level of participation and satisfaction of Hispanic businesses in the 8(a) program, NEDA contacted five local Hispanic firms with a history of 8(a) involvement. All firms indicated that it was difficult to enter the program. Once certified, they had difficulty generating work.

However, they also expressed that the contracts generated had helped significantly in improving their market and financial positions.

Moreno Construction Co., Inc., was certified in July 1972. It obtained its first and only contract to date in 1979, after resorting to legal action.

Chicago Uniform Co., Inc., was certified in October 1976. Since then, it has received only two contracts.

Frank Avila and Associates, an engineering firm, was certified in 1978. In 1979, it received its only contract to date in the amount of $30,500.

Comstock Construction, Inc., was certified in 1979. Since then, the company has received 6 contracts for total revenues of approximately $1.1 million.

An interesting case is presented by A. & R. Janitorial Services. This firm was certified in 1971 and graduated in 1978. According to A. & R., it is the only firm graduated from this program in region V to date.

From 1971 to 1978, A. & R. received five contracts: one in 1971, one in 1972, one in 1974, one in 1975, and one in 1978. In January 1978, it was notified that it would be graduated from the program in April 1978. The sudden graduation posed serious hardships for A. & R. since 70 percent of its profits, in addition to its bonding, depended on the Government work.

Reason for graduation: A. & R. had exceeded the sales ceiling established at the time of certification in 1971. During the 7-year period that A. & R. participated in the program, its business plan was not updated to reflect changes in the economy. The company did not receive technical or management assistance, nor did it receive business development expense funds moneys.

In the area of financial assistance, I must say that Hispanic participation in the SBA 7(a) program is also limited. Based on 1978 figures for region V, a total of 74 loans were made to Hispanic business owners for a total volume of $7 million. Blacks were the recipients of 231 loans, for a total volume of $17.2 million.

Based on a study conducted by the Chicago Reporter, a social issue oriented publication, 9.1 percent of all loans approved by the SBA in 1979 were made to Hispanic firms in the Chicago area. This level of financial assistance cannot sustain the continued development of the Hispanic business enterprise in our area.

Furthermore, the current level of paperwork and the consequent delays in securing assistance from the SBA pose serious hardships for the Hispanic business owner. This is particularly true of Hispanic businesses as opposed to other minority groups, given the relative smaller size, youth and capitalization of the Hispanic firm, and thus the more immediate needs of the businesses.

We believe that there is a strong correlation between the low level of Hispanic participation in the SBA programs and the low level of employment of Hispanics by the SBA.

Out of the 474 employees in region V, only 11 or 2.3 percent are Hispanic. Of these, only six work in the Chicago district office, and three out of the six are in clerical positions.

It is incomprehensible to us to have the only Hispanic in region V with a GS-14 and at a decisionmaking position of branch manager employed in Springfield, Ill., an area of such low Hispanic incidence. An increase in employment of Hispanics, we feel, in meaningful service delivery and decisionmaking positions should contribute to increased outreach and greater participation of Hispanics in the SBA programs.

There are innumerable factors that affect the health of Hispanic businesses in our city that are not related directly to the SBA's service delivery system. There are problems of excessive Government regulations, OSHA and EPA being the greatest inhibiting factors in this respect. There are problems inherent in the infrastructure of our city's economy. There are problems related to the high cost of labor and to the lack of management talent in the Hispanic community. The very existence of these many and complex problems underscores the need for more support from the SBA.

The majority of the Hispanic firms in our area are relatively young and small. They are concentrated in the retail and service trades. However, there is a growing number of Hispanics entering the manufacturing, construction, transportation, and wholesale trades.

Based in the 1977 survey of MBE's, there are 39 Hispanic-owned manufacturing firms in the Chicago SMSA. There are 35 in the wholesale trade, 53 in transportation, and 122 in the construction trade.

These industries, no doubt, pose the most encouraging potential for growth of the Hispanic business enterprise. These larger, growth-oriented firms, however, require specialized assistance in gaining access to capital, professional management talent, and major growth markets. Although this assistance is available through the various SBA programs, it is not being fully utilized by the larger Hispanic firms.

Examples of this problem are presented by the six firms interviewed, a small number of which had received limited assistance in management or in marketing their products.

In concluding, there is an urgent need for the SBA to lend greater assistance, be it in the form of Federal procurement through the 8(a) program, or in the form of financial assistance through the 7(a) or other programs, to meet the growing needs of the Chicago Hispanic business community.

To attain this end, we recommend to you to direct the SBA to:

One: Set specific goals to increase Hispanic participation in SBA programs fourfold in the Chicago area in the next 4 years. This will require setting specific goals for Hispanic business participation in the 8(a) program to reflect the number of Hispanic-owned firms in the area.

It would also require the setting of specific goals to increase the level of SBA financial assistance to Hispanic businesses to reflect the number of firms in the area. Such increases would help bring our Hispanic businesses to the level of other cities of the Nation relative to Hispanic population.

Two: Keep separate and comparable statistics on assistance given by SBA to Hispanic businesses. The underdevelopment of Hispanic businesses in Chicago is so dramatic that there is a need to investigate and monitor the efforts directed at this group.

Three: Increase the level of Hispanic employment in meaningful SBA service delivery in policymaking positions fourfold in the next 3 years to reflect the population in the Chicago district office area.

Four: Work with current Hispanic clients in Chicago to provide them with ample information on, and opportunities to participate in, programs available. In addition to financial and procurement assistance, these Hispanic clients are in dire need of quality management and technical assistance to maximize the resources available.

Five: Formulate and implement effective procedures for expediting loans and financial assistance to its clientele. The current 6-month turnaround must be reduced to a maximum of a 60-day period.

Six: In addition to working with the smaller Hispanic firms, to direct its efforts to meeting the needs of the larger, growth-oriented Hispanic businesses. These larger firms should be educated and encouraged to participate in traditional and nontraditional capital formation programs and in programs in marketing and management assistance.

Seven: Allocate the resources needed to bring Hispanic businesses in the Chicago area to a level in numbers and gross receipts comparable to that of other major cities in the Nation.

Thank you.

Mr. **MITCHELL**. Thank you very much. Your recommendations for quadrupling, is that to reflect the ratio of the Hispanic population in this city?

Ms. **CLAUDIO**. And the number of Hispanic businesses in this city.

Mr. **MITCHELL**. All right.

I am a little concerned that you indicate that there is this tremendous underdevelopment on the utilization of Hispanic businesses. In your testimony you suggested that the reason was failure to disseminate information from SBA.

Ms. **CLAUDIO**. That is one of the reasons.

Mr. **MITCHELL**. Are there other reasons? It seems to me that we get in a little bit of trouble if we say that is the reason.

Ms. **CLAUDIO**. I said that is one of the reasons.

Mr. **MITCHELL**. What are the other reasons?

Ms. **CLAUDIO**. I used the term underpromotion, which is not simply dissemination of information, but that the Hispanic community is not aware of the programs of the SBA.

Mr. **MITCHELL**. Is there any mechanism within the Hispanic business community that calls for meeting of Hispanic businesses where that information could be shed by a Hispanic firm that has it with other Hispanic firms?

Ms. CLAUDIO. It is possible that such organizations exist, but I am not really sure if the information, the right information on the full scope of SBA programs is being disseminated.

Mr. MITCHELL. I guess what is giving me some concern is the fact, as Congressman Savage can attest to, that under this new budget for 1982, there is an enormous cutback in personnel, an enormous cutback in direct loan money and in bank participation money.

Given those three factors, it seems to me your problem is going to get worse instead of better if you depend solely on SBA to do the job. They are simply not going to have the troops to do it.

I would strongly recommend that you consider some other options within the Hispanic community for presenting information scope over SBA problems, and so forth. This is not to suggest that SBA should not do it. But I think we have to be realistic and say, if their troops are reduced by 25 percent, that means at least, all other things being equal, a 25-percent reduction in giving out information.

Ms. CLAUDIO. I think, with the existing staff that the SBA has, if the resources be allocated to work with the Spanish community, that could be accomplished.

Mr. MITCHELL. Well, that is my whole point. You are not going to have those same resources.

Ms. CLAUDIO. I am sure that the SBA at this point has enough staff, although not Hispanic, and resources to disseminate the information to the Hispanic community if it had a knowledge of the community.

Mr. MITCHELL. It may be that is true for right now, and I have some severe questions about that, but I can guarantee you that, as an ongoing operation, it is not going to have sufficient resources. It is simply not.

I wish I didn't have to say that. But this is the mood of the Congress to slash programs and personnel and, with all due respect to you and to SBA, I don't think you can fight an effective war if a company is made up of four platoons and you eliminate one platoon, 25 percent.

I have a great deal of concern about the ability of SBA to do this kind of thing in the future, and I would urge that the Hispanic community start considering some mechanisms within its own ranks to get this information out.

Congressman Savage.

Mr. SAVAGE. Let me just, Mr. Chairman, add or assure you, Miss Claudio, that the budget cuts under which we operate are not of our own choosing.

Ms. CLAUDIO. I understand.

Mr. SAVAGE. I happen to be a member of the 18-member Congressional Black Caucus, as is our chairman, and we, to a person, opposed cuts and came up with what we called a constructive alternative budget that did not include such cuts. We just could not gain enough support to get it through.

Let me ask you, you mention in your testimony, and you mention that in the SBA 7(a) program loans, the Hispanics in Chicago received $7 million in total, and blacks had received $17 million. What was the point of citing the two groups?

Ms. **Claudio**. Just for comparison.

Mr. **Savage**. What was the point of the comparison. What point did the comparison make?

Ms. **Claudio**. The fact that Hispanics perhaps are not receiving a proportionate share.

Mr. **Savage**. As compared to blacks?

Ms. **Claudio**. Exactly; yes.

Mr. **Savage**. What is the Hispanic population?

Ms. **Claudio**. The figure isn't here on the Hispanic population.

Mr. **Savage**. You mention in here the Chicago——

Ms. **Claudio**. SMSA.

Mr. **Savage**. Is that the Chicago metropolitan region?

Ms. **Claudio**. Statistical metropolitan area.

Mr. **Savage**. That is more than just Chicago?

Ms. **Claudio**. Yes; it is.

Mr. **Savage**. Well, what is the Hispanic population in Chicago?

Ms. **Claudio**. I don't have that figure.

Mr. **Savage**. It is a lesser figure than that, right?

Ms. **Claudio**. Yes; it is. But not much less since Hispanics are indeed concentrated in the Chicago area.

Mr. **Savage**. But the millions—these two figures of $7 million and $17 million, you said that was for Chicago.

Ms. **Claudio**. Yes; it is.

Mr. **Savage**. Now, if you have around 500,000 Hispanics in Chicago itself——

Ms. **Claudio**. Yes; we do.

Mr. **Savage** [continuing]. And you recognize that you have 1.2 million blacks. The $7 million to $17 million is not too far behind, is it?

Ms. **Claudio**. We are comparing the population, but we are also comparing businesses. We have 2,117 Hispanic business in the Chicago area. And I do feel that that number of 10 million or 7 million does not really reflect that number of businesses.

Mr. **Savage**. Are you suggesting that there are more Hispanic businesses than there are black business, in proportion?

Ms. **Claudio**. I am not saying that; no.

Mr. **Savage**. Let me get the question out. Are you suggesting—I am asking this to make sure I understand you. Are there more Hispanic businesses in proportion to the Hispanic population in Chicago than there are black businesses?

Ms. **Claudio**. Yes; there is.

Mr. **Savage**. To black?

Ms. **Claudio**. Yes; there is.

Mr. **Savage**. All right. Proportionately, there are more?

Ms. **Claudio**. Populationwise; yes.

Mr. **Savage**. All right.

In that event, then, if you were going to make the comparison, black and Hispanic, then your complaint about there not being an efficient dissemination of information regarding SBA programs into the Hispanic community, that would imply that that problem is even worse than in the black community.

Ms. **Claudio**. It is possible. But in my testimony, I am not addressing the issue of black business, but that of Hispanic businesses.

It is possible.

Mr. **Savage**. The reason I raise it is—see if you raise the loan amounts and compare Hispanics to blacks as a way of indicating the Hispanics are not getting a fair share, then the testimony becomes a bit slanted if you do not recognize certain other comparisons that may not show that.

Ms. **Claudio**. My testimony is on the problems of Hispanic businesses. I think we have heard on the problems of black business.

Mr. **Savage**. But the question that really bothers me and I am trying to drive to is this: If you recognize that blacks, with regard to business ownership, are in far worse shape than Hispanics in Chicago, and that blacks—this is what you recognize when you said that, proportionately, there are fewer black businesses to the black population as compared to Hispanics. That is what you said, right?

Ms. **Claudio**. That is what you said, and I agree with you.

Mr. **Savage**. No. I asked you, was that true? Is that true?

Ms. **Claudio**. Yes. That is populationwise.

Mr. **Savage**. Right.

I am saying, if that is true and you recognize that the black proportion of the population in Chicago has been at a higher level for far longer than the Hispanic population—in other words, saying that the substantial Hispanic population came later than the substantial black population, and yet the black population has a smaller proportion of business ownership, it would imply then that the black population is even in worse shape than Hispanics.

But the point I really want to get to is this: If that is so, or anywhere even close to being so, is it not treading on dangerous waters to make the comparison between two groups that are deprived, Hispanics, on the one hand, and the blacks, on the other?

Ms. **Claudio**. I don't consider that dangerous.

Mr. **Mitchell**. If I could ask the witness to please let him get his questions out before you respond.

Mr. **Savage**. Is it not treading on dangerous waters in the sense that you have cited two groups, both of whom you admit are deprived in terms of having a fair share of anything with regard to business, and compare them in the way as to imply that one is doing better than the other proportionately?

Isn't the problem really then that if they are both deprived, that you need to take the two and compare them with the total white population, which apparently has a disproportionate share? And if by doing it that way, would you not encourage unity between the two groups, rather than to compare in another way which creates perhaps competition?

Ms. **Claudio**. Mr. Savage, with all due respect, I am not making the comparison to create any disunity among blacks and Hispanics. I simply wanted to focus your attention on some very special problems that Hispanic businesses in Chicago are faced with.

The assumption that I am making comparisons to instigate any friction has been made by you. That was not the intention of my quoting those statistics.

Mr. **Savage**. Then we will both, I assume, agree that both, as deprived groups, Hispanics and blacks, that you would to—that it is your intention, certainly, that in this testimony to present it in such a way as to encourage unity between Hispanics and blacks, because unity between the deprived is what might be essential for our survival; would you agree?

Ms. **Claudio**. Yes; I do agree that there is some need for blacks and Hispanics to work together in solving their common problems. But Hispanics are faced with some very unique problems that deserve special attention.

Mr. **Mitchell**. Mr. Fary?

Mr. **Fary**. I am very familiar with Mr. Carlo and his operation. He is a national small business prizewinner and operates within my district.

Ms. **Claudio**. Yes.

Mr. **Fary**. He employs many local people.

Ms. **Claudio**. Yes; he does.

Mr. **Fary**. He is a very successful man, and a pride to our city, and a pride to our community. Please give him my best regards.

Ms. **Claudio**. Thank you.

Mr. **Mitchell**. Thank you very much.

Since you are merely presenting the testimony for Mr. Carlo, I have more questions, but I guess it would not be fair to address them to you. I will send some additional questions to him.

Ms. **Claudio**. Very good.

Mr. **Savage**. Mr. Chairman, just for a moment——

Mr. **Mitchell**. Sure.

Mr. **Savage**. Let me just tag on to my colleague and friend, John Fary's compliments to Nelson Carlo. We also happen to be friends.

Ms. **Claudio**. I know. Thank you.

Mr. **Mitchell**. Miss Harrigan and Mr. Smith, are you both here? Can you come back this afternoon, later?

Mr. **Smith**. Yes.

Mr. **Mitchell**. OK.

What I would propose then—I didn't realize we would take quite as much time as we did. I would propose that we hear from Mr. Bates next, Mr. Michael Bates. When we come back from lunch, we will put you two on next as the first witnesses.

I would also propose, Mr. Bates, to limit—and I will have to require this time—that you limit your testimony not to exceed 10 or 12 minutes. I am going to have to do that for every other witness from this point on. Otherwise, we will not be able to conclude.

## TESTIMONY OF T. MICHAEL BATES, VICE PRESIDENT AND SECRETARY, INDEPENDENT TRUCKERS OF GREATER CHICAGO

Mr. **Bates**. My statement is really short and to the point, Mr. Chairman.

Mr. **Mitchell**. All right, Mr. Bates, we will hear your testimony and take questions from the members of the panel. At the end of that, we will adjourn for about 1 hour and 20 minutes for lunch, and then resume. We will see what time we finish up with this segment.

Mr. **Bates**. Good morning, Mr. Chairman and members of the subcommittee. My name is T. Michael Bates, and I am vice president and secretary of the Independent Truckers of Greater Chicago.

First of all, I want to thank you for this opportunity to give testimony before the committee on behalf of minority and small businessmen and their plight toward full participation in our free enterprise, economic, and political system.

I appear here today on behalf of minority and small businesses to express not only some of our views in areas of minority and small business regulation, but also some of our concerns.

Our primary concerns are that:

One: The Nation's black community as an industry is practically irrelevant to the American industrial complex, owning less than 0.5 percent of the Nation's assets. For the purpose of this testimony, we view the terms "black" and "minority" as being synonymous in definition in terms of modern-day usage. Black and minority communities, for the most part, are consumers rather than producers, and little effort has been exercised in improving their position. Present efforts in promoting economic development for minorities are minute in relationship to the condition, as evidenced by the fact that approximately 15 percent of the Nation's population own less than 1 percent of its assets.

Two: The scope of the problem can historically be identified as lack of national commitment in terms of capital and technical resources which are needed to promote any healthy economy. The exclusion of these resources from a particular segment of society, in this case blacks, results in extreme depravity both socially and economically.

Three: We believe that every time an incident occurs that affects the American public in relation to the minority entrepreneur business, the following can be expected from our Government: the issues are hushed up or played down, and in so doing, the minority businessmen are depicted as being an inept, carefree, undiscovered moron cast out from normal society who steps out into the jungle full of big business tigers and is immediately gobbled up. The end results in nothing except buckpassing, redtape, and a not available for comment.

Our primary complaints are that the Small Business Act of 1958, as amended, and the rules, regulations, and policies as promulgated by the SBA, does not fully address itself to the minority businessman entrepreneur. And it is likely that the minority businessman, as he exists today, was not contemplated when the present regulatory framework under which he must survive was created.

To my knowledge, no segment of any population in any part of the country is subject to as many negative requirements as the minority businessman.

Our participation in business enterprise is dictated by an insensitive, unthinking, and uncaring bureaucracy, and what we have essentially is a taxation without representation. Even though there are 10 million small businesses who account for 50 percent of the goods and services produced and 58 percent of the jobs, they have little or no say in how the rules are made.

The recurring theme seems to promote negative concepts like: How can you, a small minority firm, possibly compete with big businesses' outside sources of capital, political clout, prestige, computerized efficiency, departmental specialization, vertical and horizontal monopolies? The awful truth is, you can't, or so says the so-called development specialist and pundits.

Nothing could be further from the truth. The fact of the matter is, as it grows bigger, big business creates more opportunities for small entrepreneurs to move in and compete against musclebound giants on a very successful basis.

A point of fact: IBM, one of the biggest, has created more competition for itself than probably any other major company in the world. Former employees joined together to start peripheral companies in direct competition with IBM, and some have been financially successful. In fact, it is our contention that big business could not exist unless it operates in close juxtaposition with small business.

The Committee on Small and Minority Business has asked us as representatives of the small business community to give testimony on a very important and crucial subject, which focuses on: "Small and minority business in the decade of the eighties: declining options and new approaches."

In keeping with our responsibility and policy to improve the economic and business position of minority participants, we welcome this opportunity to comment on this important subject. In developing our comments for presentation to the committee regarding this subject, we would like to address several specific issues before this committee and the problems faced by minority businessmen as they relate to these issues.

The specific set of issues are as follows:

One. Public Law 95-507, as it relates to the minority subcontractor within the Federal procurement system.

Two. SBA's section 8(a) program.

Three. SBA's public relations policy toward minorities.

Four. Promulgation of regulations, rules, and policies by SBA.

Five. SBA's Advisory Committee pursuant to Public Law 95-507.

Six. Capital formation—a proposed new strategy.

Recognizing the need to enhance and improve minority participation in the mainstream of the free enterprise system, the Congress saw fit to enact Public Law 95-507 in 1978, which amended the Small Business Act of 1958.

We believe the congressional intent underlying the passage of such legislation was to significantly foster the growth and development of minority business enterprise. While there have been some small degree of scattered minor success on an individual level in the 3 years since the passage and implementation of this legislation, we cannot see any significant upward improvement in the overall capital base or capital ownership by minorities on a national level prior to, and after passage of, this act.

We believe that certain factors programed into regulation and policy tend to act as impediments and barriers to prevent achieving the overall success of such legislation.

Section 8(a) program: While we believe the overall program concept is good, we believe the implementation of such program needs a general overhaul, especially in areas of size standards and program eligibility. We believe that the goal-oriented aspect of the program should be eliminated and should and ought to be made mandatory.

We further believe that 8(a) certification should be transferred back to the district or regional level and should be automatic once a qualified business plan is submitted.

SBA's public relations policy toward minorities: We believe SBA personnel is both patronizing and condescending in its policy and cavalier approach to minority applicants. If this allegation is fact, we believe that corrective action is warranted.

Promulgation of regulations, rules, and policies by SBA: We believe that SBA should do more to advise and invite public comment from the minority sector in the promulgation of its regulations, policies, and procedures. We further believe that certain codes of Federal regulations are in conflict with the law and therefore act to nullify the intent of Congress in the enactment of such law.

SBA's Advisory Committee pursuant to Public Law 95-507: Pursuant to Public Law 95-507, page 1764, an advisory committee composed of five U.S. businesses and five representatives of minority small businesses shall be created to facilitate the achievement of purpose of providing contract assistance to minority businesses. These individuals are to be appointed by the President. We have seen no record of the existence of these representatives, nor have we received any information flow, or information dissemination as to program input. We believe that more information on this subject should be made public and available.

Capital formation—a proposed new strategy: Since the formation of this Republic, minorities have never had a capital base in this country. If we are to achieve economic parity in this country, we believe that in the eighties, we must invent new and innovative techniques to formulate and strengthen a capital base for capital formation and investment in minority business enterprise.

We believe in a financing concept that would induce the Government to guarantee a small public security offering. We believe that a program of this type which would guarantee up to 90 percent of a registered regulation a common stock equity investment up to $500,000 to public investors, would provide a good beginning in establishing a good capital base for minorities as well as other small business. We realize that such a bold plan would require additional and possibly new legislation, but we believe these are times that require such bold and innovative action.

In closing, Mr. Chairman and members of the committee, we hope you will give these comments very careful consideration and that they will result in the accomplishment of meaningful solutions to very serious problems rather than just words on paper.

Again, I thank you for this opportunity to testify, and I will be more than happy to answer any and all of your questions.

Mr. MITCHELL. We thank you for your testimony.

I might point out, with regard to the advisory committee, President Carter did appoint an advisory committee. The first report is now available. I have not seen that report yet, but certainly your comments and recommendations in that area are well taken.

I think that if it is going to exist at all, it ought to be a viable entity.

I will try to share with you a copy of that report, if you will remind me to do so, and I will scrutinize it very carefully to make sure that we are dealing with a viable entity.

I like your idea about a capital base, a new approach to a capital base. I am in complete agreement that given the exigencies of the circumstances that we face right there, we have got to have a whole lot of new approaches.

This is not to suggest that the old approaches are ipso facto bad, but that they certainly need much more help.

I am a little concerned in that in general, your testimony is kind of relatively negative. It is negative with regard to performance levels up to this point. I raise that issue only because the opponents of these programs always seize in testimony like yours and say: Here is a man who has been out there. He is saying the whole darned thing is no good. Which would be a distortion of what you said.

In your experience, has there been any salutary effect from any of these Federal agencies on behalf of minority business?

Mr. Bates. Yes.

Mr. Mitchell. Have any good things come out?

Mr. Bates. Oh, some very good things, Mr. Chairman, have come out. I only say that it sounds negative. I only recite the negative. I also try to recite the positive.

One of the main concerns that I have is, is that the minority entepreneur does not get the respect, in my opinion—and this is my personal opinion—he does not get the respect that he should get when he approaches the Federal bureaucracy on a business level.

Of course he is treated entirely, I would say, indifferent. In other words, if I walk into a Federal agency requesting information or information flow, or requesting from that particular Federal agency what do you do, you know, a whole packet of information, the minute I enter the reception area and the color of my face is seen, a negative reaction automatically sounded.

In other words, the treatment is like: What is this minority doing in here?

Mr. Mitchell. When you encountered that, what have you done about it?

Mr. Bates. What have I done about it?

Mr. Mitchell. Yes.

Mr. Bates. Well, I have protested it. I protested it not only at the level where I encountered it, but I protested it at the level of, let us say, the director of such agency.

Mr. Mitchell. Do you live in Congressman Savage's district?

Mr. Bates. I certainly do.

Mr. Mitchell. Would you contemplate, at least when you run into that kind of thing, at least advising his office?

Mr. Savage. If the chairman would yield?

Mr. Mitchell. Yes.

Mr. Savage. Mr. Chairman, one of the reasons that I asked the committee to sit in the hearing in Chicago is because that Mr.

Bates is already complaining to me about size standards and other problems. So he does voice his complaints. And I appreciate it.

Mr. **Mitchell**. OK.

On size standards, I understand. But it is exceedingly difficult for me, as one Member of the Congress, to come out and hear your testimony with regard to the reception accorded to you by the agencies, and not be assured that the lack of any positive reception had been registered with a Representative of yours in the Congress. Because, let us face it, over the long haul, these agencies are only going to respond when we jump into the picture.

Mr. **Bates**. I agree.

Mr. **Mitchell**. They know that their funding depends upon us, to a very large extent. I am just urging that when that kind of thing occurs, there be prompt notification of your Representative in the Congress, be it Mr. Fary, Mr. Washington, or Mr. Savage.

Since the new administration has come in, I have been concerned about people getting to me—going into the agencies, and they tell me that—lesser bureaucrats are saying: Oh, no, this is a new ball game and we aren't giving any preferential treatment to minorities.

I follow through on each one of those, because an agency has got to obey the law. For as long as we have laws in place that spell out an approach for minority businesses, they are going to obey it.

Mr. **Bates**. Congressman, I would like to make one other observation. I mean, in commenting on the subject matter that we are discussing now, whether I be a minority or not, I am still a human being. I am a man. I deserve and I demand respect. This is one of the things that we must overcome. We must overcome that before we can begin to gain economic parity.

Mr. **Mitchell**. You and I are on the same wavelength. I am just saying the same thing that you are saying, using different language. I used minority in this instance, but any citizen, any citizen is entitled to respect from any bureaucrat because any citizen pays the salary of any bureaucrat.

Congressman Savage?

Mr. **Savage**. May I just simply add I want to commend Mr. Bates on how perceptive and concise his testimony has been and how impressed I am, along with the chairman, on the creative boldness shown in this concept of Government guarantee of small public security offerings.

I would like to pursue that further in days to come.

Mr. **Mitchell**. That is interesting.

Congressman Fary?

Mr. **Fary**. No questions, Mr. Chairman.

Mr. **Mitchell**. All right. Thank you very much for being with us.

Mr. **Bates**. Thank you.

Mr. **Mitchell**. What I am going to suggest is that we now take a break for lunch, and the hearing will resume at 1:45. Don't leave yet. Many of you in the audience that know me know that I am a very nice lovable human being who is not at all autocratic. I believe in the democratic process.

Therefore, when we return from lunch, every witness will be limited to 10 to 12 minutes in the presentation of his or her testimony. That is the democratic process. I have to do it that way because there is an enormous list of people yet to be heard from.

So I would suggest that, when you go out for your lunch, you get a copy of your testimony and go through it and extract the major points so that we can proceed in a very expeditious fashion.

This hearing is now in recess until 1:45, and we will begin promptly at 1:45 with each witness being limited to 10 to 12 minutes in presentation of his or her testimony.

Thank you very much. We stand in recess.

[Whereupon, at 12:52 p.m., the hearing recessed, to reconvene at 1:45 p.m. this same day.]

## AFTERNOON SESSION

Mr. **Mitchell**. I have announced that we would resume at 1:45. It is now 1:45.

Our next two witnesses are Ms. Harrigan, the regional administrator for the Small Business Administration—would you come right up—I think we will take you both together—and Mr. John Smith, the district director.

I am going to recommend that we take testimony from both of you. We will take your testimony first, and then we will give questions to both of you.

Mr. **Smith**. There is only one, sir.

Mr. **Mitchell**. Only one?

Mr. **Smith**. Yes.

Mr. **Mitchell**. I see. This is a combined testimony.

Ms. **Harrigan**. The prepared statement is combined testimony.

Mr. **Mitchell**. All right, that will be fine.

Pursuant to the democratic ruling that the Chair made earlier, you are now recognized for time not to exceed 12 minutes.

## TESTIMONY OF DONNA R. HARRIGAN, REGIONAL ADMINISTRATOR, REGION V, AND JOHN SMITH, DISTRICT DIRECTOR, SBA

Ms. **Harrigan**. I would be most happy to do so.

Mr. Chairman, members of the committee, I would move you submit the written statement of myself on behalf of the Administrator, and perhaps the better use of our time would be spent in responding to such issues and questions as you may have and let these statements stand on its own.

Mr. **Mitchell**. Without objection, the statement is submitted in its entirety.

I would recommend that you highlight the five or six points that you would want to make before we get into questions.

Ms. **Harrigan**. That is fine.

I think the interests of the chairman and the committee have been directed to some of those changes in the 8(a) program that the Administrator has proposed.

There are five recommended changes, some of which have been implemented, having to do with size 8(a) companies, not exceeding the size standards; the recommendation, that the regional administrator have limited authority in granting both business development expense and advance payments at the regional level; and any request for BDE and advance payments of a larger portion then set out would be handled at the central office level.

The two other items in those proposed changes of his are the moratorium on the entry of 8(a) firms into the present portfolio and his present proposed regulations regarding the 3- and 5-year limits on maximum participation of 8(a) firms in the portfolio in the 8(a) program.

I think those are probably the significant items, as far as 8(a) programs are concerned. The written statement deals with other aspects of the Chicago district office, that is to say the Illinois office's operation in the lending program and the management assistance, together with the attachments thereto.

Mr. MITCHELL. All right.

How many firms, to the best of your knowledge, were waiting for 8(a) certification when this moratorium was imposed in the Chicago district office and in the regional office?

Ms. HARRIGAN. That number, as of May 1981, we have pending in the Chicago district office 70 applications.

Mr. MITCHELL. Seventy?

Ms. HARRIGAN. Seventy.

Mr. MITCHELL. Yes.

Ms. HARRIGAN. In the entire region, 84.

Mr. MITCHELL. Eighty-four.

Out of the 70 that were pending in the district office, do you know how many of those 70 firms had contracts almost in hand and were waiting for 8(a) certification to finalize the contract?

Ms. HARRIGAN. I do not know that. Perhaps Mr. Smith would know that.

Mr. MITCHELL. Mr. Smith?

Mr. SMITH. Mr. Chairman, I don't have the knowledge of the number that had contracts in hand.

Mr. MITCHELL. All right, do you have any knowledge about at the regional level, how many of the 84 firms had contracts pending?

Ms. HARRIGAN. I do not.

Mr. MITCHELL. Would it be reasonable on my part to assume that a substantial number of them did have contracts pending?

Ms. HARRIGAN. It would be reasonable in this sense: Prior to admission before certification, we use a particular form, a 1017 form, which will do a quick survey of available support. Your assumption is somewhat accurate.

Mr. MITCHELL. It has been my experience in my office that generally when a firm from any place in the country gets to me or to any Member of Congress, they are saying: We need 8(a) certification because we have identified this contract. Therefore, I assume that it is reasonable to believe that a number of these firms did have contracts pending.

I would further assume, and you correct me if I am wrong, that between May, and this is now July, a number of those pending contracts might well have been lost to these firms that have identified them because they have not gotten 8(a) certification. Would that be a reasonable assumption?

Ms. HARRIGAN. I think that we need to differentiate between——

Mr. MITCHELL. Would you pull your mike just a little closer to you and project a bit more?

Ms. HARRIGAN. Sure.

I think we need to differentiate between available support and actual contracts pending. When we do an initial survey on available support, that means that that kind of business is available for placement in the 8(a) program.

That does not necessarily mean that we have identified a contract.

Mr. **Mitchell**. I am talking about my experience.

Ms. **Harrigan**. All right.

Mr. **Mitchell**. Major Clark, who is on this Small Business Committee, knows that we are frequently deluged with requests saying, please give me my 8(a) certification because I have identified a contract. They say all signals are go on your contract as soon as you get certification.

So it has been our experience that most of the firms that are pushing hard for 8(a) certification will have identifiable contracts on which they have done at least some negotiation.

But I would be forced to believe that no firm is going to hold a contract from May until July or August or September in the absence of an 8(a) certification, which leads me further to conclude that this moratorium which was imposed really, in a very real sense, was very detrimental to minority businesses.

I am not going to ask you to respond to that, because I don't think you can. But that is the opinion of the Chair, that a unilateral move of this sort had to be detrimental to minority businesses.

How many of the pending contracts have been expedited because of Mr. Cardenas' ruling that there would be some flexibility in certain cases. You had 70-some certifications in the district office that were pending when the moratorium was imposed. In testimony before our committee, the Administrator said there would be in certain cases flexibility shown and action would be taken on the certifications. How many, if any, of the 70 certification applications that were pending at that time had been expedited?

Ms. **Harrigan**. I don't think that our figures would reveal that precisely.

I do know that 13 such 8(a) certifications have been forwarded and are pending in the central office. That is just from the Chicago district.

Mr. **Mitchell**. All right. Would you have any idea on the regional area?

Ms. **Harrigan**. No; I do not.

Mr. **Mitchell**. OK.

The Administrator has proposed some regulations regarding size standards. What, if any, has been the reaction of the minority business community to those proposed size standards? Have you had any complaints in the district office?

Mr. **Smith**. Mr. Chairman, are you addressing the fact that the Administrator is wanting to determine the size of the existing portfolio for big or small?

Mr. **Mitchell**. That is right.

Mr. **Smith**. OK. In the district office, we have only one contract in the district office who is on that particular list of question. And that contractor, I think there is no doubt in his mind that he perhaps may be large. He is submitting material now to have that determination made.

Mr. MITCHELL. Yes.

Mr. SMITH. None of our others will, as we can see, are going to be affected at this point.

Mr. MITCHELL. What about at the regional level?

Ms. HARRIGAN. There are two companies altogether. One is the one referred to by Mr. Smith in the Chicago area.

Mr. MITCHELL. All right. There has been no final decision made on that one?

Mr. SMITH. We haven't received all of the information yet to make that determination.

Mr. MITCHELL. What about the other one.

Ms. HARRIGAN. But that is also true.

Mr. MITCHELL. Yes. All right.

Now, as I understand it—not as I understand it, but as I know it—a form letter was sent out from Washington to all of the SBA recipients asking them to sign off on this form letter indicating that they would agree to certain provisions of a business plan, and that they would in effect waive all further rights for negotiation of that business plan; is that correct?

Ms. HARRIGAN. Does the chairman refer to the——

Mr. MITCHELL. The letter that went out over Mr. Wright's signature.

Ms. HARRIGAN. Over whose?

Mr. MITCHELL. Mr. Wright.

Ms. HARRIGAN. Do you refer to the fixed program participation term?

Mr. MITCHELL. It's temporary fixed program participation.

Ms. HARRIGAN. True.

Mr. MITCHELL. November 30.

Ms. HARRIGAN. Right.

Mr. MITCHELL. And they were required to waive all rights on future negotiations; is that correct?

Ms. HARRIGAN. That is correct.

Mr. MITCHELL. Isn't that unconstitutional?

Ms. HARRIGAN. I think that——

Mr. MITCHELL. Was there any consultation with the legal staffs up in the other line on this?

Ms. HARRIGAN. I am not positive of that at the central office level where this policy originated, sir.

However, it is my understanding that under the existing law, the term of all 80 companies would have expired June 1, had not this temporary participation term been offered to them.

Mr. MITCHELL. I understand that.

My problem comes in that that letter was worded in such a fashion that any person or any firm that signed that letter waived all future rights for negotiation on the length of time that they might be in the program; is that a correct understanding, Major?

Mr. CLARK. That is correct.

Mr. MITCHELL. Well, I am not going to tautologize the discussion here, but my point is I don't think any agency of Government could do that. I don't think anybody can ask any American citizens to sign a document in which you waive all future rights. And I think the SBA clearly acted in an unconstitutional manner on that particular piece of correspondence?

Have you got any complaints about that?

Ms. **Harrigan.** We have had resistance from a very small number of the companies. And I would believe that those companies viewed that letter as an absolute waiver rather a temporary provision for renegotiating their term sometime prior to the end of November.

Mr. **Mitchell.** It was a very cleverly worded letter. The caption was "temporary" regulation, "temporary" provisions. But if you went through it very carefully, there was that sentence that said that I waive all future rights, which was unmistakably clear.

We have been in conversation with the central office on this, and I would hope that it would not be necessary to involve the Justice Department or anyone else in it. But this is a basic rule of law in this country. You don't ask anyone to sign a document that waives all future rights and claims. You just can't do that.

What has been the reaction to the moratorium on the business development expense? Have you gotten any complaints in the district office?

Mr. **Smith.** I would request a clarification of the question. You talk about the moratorium of the business development expense, or do you mean the entry of new applicants into the program?

Mr. **Mitchell.** Maybe I am saying this wrong.

Let us do advanced payments first. There was a moratorium imposed there, wasn't there?

Mr. **Smith.** There was a restructuring, to the best of my knowledge, of the advanced payment and authority to sign off an advanced payment. Where it was at a certain level at the region prior to that, then it reverted to the central office.

Mr. **Mitchell.** And that same condition obtained for business developing expenses.

Mr. **Smith.** For business developing expense as well.

Mr. **Mitchell.** What, if any, has been the reaction of the minority business community toward both of those restructurings?

Mr. **Smith.** Those contractors that we have in the program that are utilizing both of those areas of assistance, in the cases that we have had so far, they have gone through and they have been approved. And the time that has been involved has not been inordinately long.

Mr. **Mitchell.** Roughly, what kind of timespan are we talking about?

Mr. **Smith.** We are talking about a couple of weeks.

Mr. **Mitchell.** A couple of weeks.

The reason I wanted to pursue that line of questioning is that it is my impression that the vast majority of minority business work very close to the margin. And if advanced payments are due them and there is a protracted delay in getting those advance payments to them, you simply cause a very, very serious damage to that business; is that correct?

Ms. **Harrigan.** Mr. Chairman, what I am noticing happens at the regional level, because I must sign in both cases, is that where we have an especially large contract, the procuring activity, the regional staff and the contractor are making every effort to obtain interviews in the central office to determine at an early stage whether or not a certain amount BDE or advanced payments will be made available because, if there is not that kind of assurance, it interrupts the negotiation process.

Mr. MITCHELL. Now let me make it clear that I am not trying to intimidate either of you, because both of you look like you can't be intimidated. So I wouldn't even try that.

But I guess what I am trying to get at is, I am a little weary of unilateral decisions being made in a central office, whether it be SBA or somebody else, without any real thinking through of the impact of those decisions. And I think the decisions that came from Mr. Cardenas' office were capricious and arbitrary. I don't think anyone stopped to look at the enormous negative impact that they could have had.

Having said that, I just chatted during our break and I pointed out that it is my understanding that the Chicago office is one of the more receptive offices to minority businesses, and I want to congratulate you on that. Los Angeles and Chicago are pretty good. We have got some horror stories in some other places, as you know. It is out of the recognition of the good work that you have done that I was following that line of questioning.

I didn't expect you to respond. You can't respond to what the Administrators have done, no matter how inept it might be.

Ms. HARRIGAN. Thank you.

Mr. MITCHELL. I don't expect you to respond to that, but I think it ought to be an official part of this record.

Congressman Savage?

Mr. SAVAGE. If the chairman would permit, it is not Los Angeles-Chicago, it is Chicago-Los Angeles.

I have not had the pleasure of meeting Ms. Harrigan, but my relationship with the Chicago office under Mr. Smith has been just superb. It has been a real delight to find a bureaucrat who respects the elected officials, respects the people who have been elected to speak for the people, and has been tremendously responsive. It has been my impression that he has a sincere interest in carrying out and enforcing minority business programs. So, it is a delight to know you, Mr. Smith.

Let me ask, first, I am not so clear on what you answered about the 70 or so 8(a) applications that are caught up in the moratorium in the Chicago office. I am not so sure.

With regard to the matter of those who may have identified contracts, did you indicate that you are prepared to change your procedures in some way so that you can find those who have identified contacts in order not to have a delay jeopardize what they affirm?

Ms. HARRIGAN. That was not a part of my statement. I think the point is well taken.

Mr. SAVAGE. As I understood it, you have some 70 applications?

Ms. HARRIGAN. That is correct.

Mr. SAVAGE. And you have not ascertained which of those may have identified contracts?

Ms. HARRIGAN. That is correct.

Mr. SAVAGE. But you do recognize that there is a difference between those who identified contacts and those who are simply applying?

Ms. HARRIGAN. Of course.

Mr. SAVAGE. The time element, of course, is the main distinction. Would you consider when you return to your labors developing immediately some way of ascertaining which of those 70 may have identifiable contracts that are being jeopardized by the moratorium?

Ms. HARRIGAN. Absolutely.

Mr. SAVAGE. And then communicate that, I guess, to the central office now, right?

Ms. HARRIGAN. Yes.

Mr. SAVAGE. To ask for the flexibility to move them ahead. One of the other witnesses, incidentally—you were here, I think, when one of the other witnesses pointed out this problem. Even prior to the moratorium, when it was done on just simply a first-come-first-served basis, you may have a person standing behind one other. And the person in the rear may have the identified contract. And you should have a procedure that would include even, if and when the moratorium is lifted, a procedure that would permit you to look over the shoulder, so to speak, of the—maybe even in the application form or something—there should be some way that that could be flagged; would you agree?

Ms. HARRIGAN. I would like to point out that although the procedure is informal, we are aware from time to time of the urgency of particular applications because of the very circumstance of pending contracts. And we do everything to expedite those.

Mr. SAVAGE. What bothered me was that you did not indicate that you had any such knowledge regarding the present 70.

Ms. HARRIGAN. That is correct.

Mr. SAVAGE. I have a couple other questions. One was, do you have any response to the criticism or complaint of one of the witnesses regarding what they alleged to be an insensitivity of staff regarding the minority applications of various kinds?

Ms. HARRIGAN. I always have difficulty with that when I hear of it in any of our offices. I would expect that that is pretty much of a human failing.

Mr. SAVAGE. Let me ask you this then, more specifically: What is the number of people on your staff who are assigned in different ways to handle the Public Law 95-507 and 8(a)?

Ms. HARRIGAN. On the regional staff?

Mr. SAVAGE. Yes.

Ms. HARRIGAN. We have four people on the regional minority small business staff. And in the procurement side, to deal with the subcontracting portion of that law, we have about 10 people.

Mr. SAVAGE. You are talking about 14 in total?

Ms. HARRIGAN. Right.

Mr. SAVAGE. How many are black?

Ms. HARRIGAN. How many are black? We have on the 8(a) MSB side, three out of four; on the subcontracting side, I would say there are no blacks in that section.

Mr. SAVAGE. Is there any reason for that? Does that bother you at all?

Ms. HARRIGAN. Certainly not an overt reason; no.

Mr. SAVAGE. I don't mean to imply that.

Ms. HARRIGAN. No. I have considered myself very sensitive to many affirmative action efforts.

Mr. SAVAGE. I am not trying to imply there is some overt reason, no. No intent, I am not trying to imply that.

But what I do want to ask is that, in light of the complaint about alleged insensitivity of staff, and I am sure that a person could be white and be concerned and be black and not concerned, but where you would have 10 responsible for the procurement, how would just one know whether such an all-white team would have, as a whole, they would go after their objective with the zest that an integrated team might?

Ms. HARRIGAN. I am sure an integrated team would be very responsive. However, up until this time, we have had dollar and numeric goals. And it has been my experience that, given a goal and incentive, an employee works against that goal. So we have not, to my knowledge, had that problem.

Now there is much more that needs to be done in terms of the subcontracting effort and getting subcontracts set aside for 8(a) companies. That is largely a function of staff resources, or I should say the lack of staff resources.

Much of that is done at the procuring installation by our procurement center representatives, in which we only have one at each center.

Mr. SAVAGE. I meant that you could understand how a minority contractor or vendor might feel more comfortable if the persons who were procuring or seeking to fulfill the goal of procurement for your department that had some experience similar to their own.

Ms. HARRIGAN. True.

Mr. SAVAGE. Did you want to say something, Mr. Smith?

Mr. SMITH. Ms. Harrigan is giving, I think, the overview from the region, and I think you are on to the area of interface with the community, where most of that takes place in the district.

So, in the district, we presently have on board in the 8(a) program or MSB program, let us see, there are eight people. Of those eight, we have five black, one Hispanic, and two white.

Mr. SAVAGE. Are you talking now in terms of the procurement people only?

Mr. SMITH. These are the people who are responsible for the delivery of all of the aspects of the 8(a) program at the Chicago district level.

Mr. SAVAGE. Let me see if I understand it correctly.

Mr. SMITH. OK, I didn't know whether you were heading that way.

Mr. SAVAGE. Let me make sure. You have goals, right? And you have people who go out and seek contracts to make those goals, to service your 8(a) program, right?

Mr. SMITH. Right.

Mr. SAVAGE. Also with your subcontracting business, too, right?

Mr. SMITH. Right.

Mr. SAVAGE. All right. And that is handled mainly on the regional or district level, that procurement?

Ms. HARRIGAN. The subcontracting program is line function out of the regional office.

Mr. SAVAGE. Right. Now, that means again that we are back to where I started. We are back to square one, which is that, can you imagine that minority contractors and vendors would feel a bit more comfortable if those who were procuring in their interests were an integrated force at least? And if you do, and you are the director, would you give some thought or consideration in the future to correcting that or at least changing it?

Ms. HARRIGAN. Absolutely.

Mr. SAVAGE. Very good.

Ms. HARRIGAN. If I may elaborate on my experience of being a woman in the regional director's position, we have had an extremely successful women's business effort, not only in Chicago, but around the region. And there are very few women in the Chicago area or elsewhere who even hesitate to pick up the telephone and call me for specific help, many of whom are in this courtroom.

Mr. SAVAGE. But you recognize that women can get contracts and blacks could still be out of it?

Ms. HARRIGAN. Pardon me?

Mr. SAVAGE. You recognize that women can get contracts and blacks would still be out of it?

Mr. MITCHELL. Would my colleague yield?

Mr. SAVAGE. Yes.

Mr. MITCHELL. I think we can do it by way of analogy. Would the Congress, would the House of Representatives be the same, would it operate in the same manner if we had no black Representatives, as opposed to 18 men and women from black communities? This is a rhetorical question. That is all that he is trying to get out. Sometimes the mere presence of minorities can have a salutary effect on certain policy decisions.

Ms. HARRIGAN. Of course.

Mr. MITCHELL. Thank you for yielding.

Mr. SAVAGE. To be more specific is that, when I suggest that the 10 procurement officers you have may be integrated, I didn't mean integrated male and female, nor did I——

Ms. HARRIGAN. I understood.

Mr. SAVAGE. I don't even mean integrated Hispanic and non-Hispanic. I mean black. That is what we both understand, right?

Ms. HARRIGAN. Yes; we do.

Mr. SAVAGE. The only other question, Mr. Chairman, was the question about the size standards, but that is at the central office, I gather, right, the problem of size standards?

Mr. MITCHELL. Yes.

Mr. SAVAGE. So, with that, let me thank you for consideration and coming out.

Mr. MITCHELL. I am going to depart just a little bit from our usual format in that we are planning these oversight hearings on Public Law 95-507 sometime in the fall. And Major Clark, our staff director, is going to be responsible for developing those oversight hearings on the implementation of Public Law 95-507. I think he had one or two questions he would like to put now.

Mr. CLARK. Yes, sir.

Thank you, Mr. Chairman. I just have two questions.

I would like to follow up for the moment on the question raised by Congressman Savage regarding the subcontracting provisions of Public Law 95-507. You stated that you have four individuals, I believe, in the regional office responsible for——

Ms. **Harrigan**. Ten, approximately 10.

Mr. **Clark**. A total of 10 responsible for implementing the subcontracting provisions of Public Law 95-507.

Ms. **Harrigan**. That is correct.

Now we also, in addition to that, have six procurement center representatives. Part of their responsibility is looking at those subcontracting plans. And they are located at the various installations, we have five installations in region 5.

Mr. **Clark**. In 1980, how many subcontracting plans were reviewed in the region and rejected or accepted?

Ms. **Harrigan**. All right, let me see if I have that.

I have some figures here, but I am not sure it is going to tell you how many were rejected. We file a monthly report on how many are rejected with our central office.

I believe the figure you are searching for would be on page 15 of the statement, at the very bottom. We have subcontracting plans in noncompliance, 43. And that is for the period October 1, 1980, through May 31, 1981.

Mr. **Clark**. Of the approximately 43 contracts in noncompliance, what action has SBA taken to bring those contracts into compliance?

Ms. **Harrigan**. I believe the only action that we have taken so far is to complain to the various installations. However, I do have a member of my staff that may be able to answer your question, if you would like.

Mr. **Mitchell**. I think it would be important to get as much information on this as we can.

Ms. **Harrigan**. Would Mr. Herman come up here, please?

Mr. **Herman**. As far as the——

Mr. **Clark**. Excuse me. Would you please identify yourself for the record, please?

Mr. **Herman**. I am Vincent Herman with the Small Business Administration, regional office. I am sorry about that.

Of the 43 plans that were found in noncompliance, we maintain a very close surveillance of those by followup visits with the contractors.

Mr. **Mitchell**. Would you pull your mike just a little closer to you, and talk directly in it.

Mr. **Herman**. Sure.

I shall repeat. We maintain a very close surveillance on those plans that are found in noncompliance. And to assure that, we do schedule, generally on a quarterly basis, a followup visit, first of all, to determine whether corrective steps or actions have been taken by that contractor.

Mr. **Clark**. May I interrupt you just one moment?

Mr. **Herman**. Yes, sir.

Mr. **Clark**. Are you telling me, if I understand correctly, what you are saying, is that of the 43 contracts for fiscal year 1980 that you found to be deficient, that the contracts themselves have already been let?

Mr. **Herman**. The contracts have been let, yes, sir.

Mr. **Mitchell**. Isn't that in violation of law? Isn't that in direct contravention of Public Law 95-507?

Mr. **Herman**. The law requires, as we know, any Federal contract of $500,000 for material or $1 million for the construction requirements will incorporate and become, as a material part of the contract, a plan.

Now, in many of these instances where we have noncompliance, it is not just a matter of our surveillance of those plans, but it is a matter of communicating back to the procuring activity very specifically where we have found the mistake, the omission, and asked that corrective action be taken.

Now this is a recommendation that we make to them, and it is a formalized recommendation, it is in the report. It is also reported to our central office in Washington.

Mr. **Mitchell**. I understand loud and clear what you are saying, and I applaud you for doing that.

My problem is, how in the world does a contract get signed off in the beginning? Under the law, you can't sign off on such a contract unless the plan is before you.

Mr. **Herman**. I fully recognize that, Congressman Mitchell.

Mr. **Mitchell**. How did these get signed off?

Mr. **Herman**. How did they get signed off? Someone has made a decision at the procuring activity level to go ahead and award the contract, notwithstanding any of the recommendations made by SBA personnel. Those onsite, as Ms. Harrigan pointed out, are procurement center representatives, they are advisory to the contracting officer.

Mr. **Mitchell**. Would you get me a list of those 43 contracts? This is at the procurement level of the Agency, DOD or somebody else, or is it within your ranks?

Ms. **Harrigan**. It is within these fine installations within region 5.

Mr. **Mitchell**. I would like to have those within no less than 10 days, please.

Ms. **Harrigan**. I would be glad to furnish that.

Mr. **Mitchell**. You can't let children steal bicycles and not get punished; you can't let agencies violate and not punish them. I would want that, please.

[The lists, referred to above, follow:]

U.S. Government,
Small Business Administration, Region V,
*July 31, 1981.*

Hon. Parren J. Mitchell,
*House of Representatives,*
*Washington, D.C.*

Dear Congressman Mitchell: This letter is in response to the requests you submitted to the Regional Administrator, Chicago Regional Office, during the Congressional Committee on Small Business Field Hearing held in Chicago, Illinois, July 18, 1981.

The specific information on the forty-three contracts found to be in interim noncompliance with the requirements of Public Law 95-507 is provided as Enclosure I. Data presented identifies the contractor, contract number, date of the SBA compliance review, and findings. Also identified are those contracts which as a result of the follow-on SBA compliance reviews have been upgraded to interim or final compliance based on corrective actions initiated by the contractor.

Notwithstanding, SBA's uncompromising commitment to be fully responsive to the requirements of Public Law 95-507, SBA's advisory role as set forth in the law and implementing regulations is relegated to advising the procuring contracting officer of the acceptability or non-acceptability of a subcontracting plan submitted by the apparent successful prime contractor.

Further emphasis of SBA's limited role is set forth in Defense Acquisition Regulation 1-707.2(e)(3) which states, "The SBA is not authorized to prescribe the extent to which any contractor or subcontractor shall subcontract; specify concerns to which subcontracts shall be granted; or exercise any authority respecting the administration of individual prime contracts or subcontracts".

Additionally, the contractor's make or buy decisions determine what and how much subcontracting will be done on each specific requirement. These make or buy decisions are made during the bid/proposal preparation stage, provide the basis for price to the Government and accomplished well in advance of bid or proposal submission to the procuring activity. Any SBA finding of non-acceptability of plans relative to the six major factors of Public Law 95-507 are therefore, after the fact, and subject to review and final decision by the procuring contracting officer.

Based on the foregoing, this office is unable to comply with your request to submit to the Office of Congressman Savage a listing of solicitations issued or to be issued as SBA has no authority to request or enforce this requirement upon the procuring activities.

Thank you for your interest in the programs of SBA. Region V will continue its aggressive support of Public Law 95-507.

Sincerely,

DONNA R. HARRIGAN,
*Regional Administrator.*

Enclosure.

## ENCLOSURE I

| Company's name and contract numbers | Evaluation/review date | Follow-on evaluation/review date | Discrepancies noted |
|---|---|---|---|
| ADM Milling Co., 4666 Faries Parkway, Decatur, Ill.<br>Commercial product:<br>KCFF 29778<br>KCFF 29904<br>KCFF 29913 | Interim noncompliance, December 4, 1980.. | Administration transferred to Shawnee Mission, Kans., April 3, 1981. | Lack of proper coding as to size and classification of vendors.<br>Records not established to demonstrate procedures that had been adopted to comply with requirements and goals of plan.<br>Unavailability of reports of accomplishments. Goals yet to be established. |
| Amoco Oil Co., 200 E. Randolph Dr., Chicago, Ill.<br>Commercial product: 80XC3-603009 | Interim noncompliance, April 10, 1981........ | Final noncompliance, April 28, 1981........... | Failure to provide required and requested Program information and failure to maintain records. |
| Bendix Corp., Brake and Strut Division, 3520 West Westmoor St., P.O. Box 10, South Bend, Ind.<br>N00383-79-G-9904, D.O. Number BS79<br>F42600-80-C-0964<br>F42600-80-C-0652<br>N00383-79-G-9904, D.O. QP2202 | Interim noncompliance, November 20, 1980. | Interim noncompliance, May 6, 1981........... | Contractor's position to utilize only the aggregate data set forth on the DD 1140-1 and SBA Form 745 to demonstrate compliance with Public Law 95-507 requirements.<br>Records were not established to demonstrate procedures that have been adopted to comply with requirements and goals of plan.<br>Reports of accomplishments against goals in plan were not available. |
| Enterprise Chemical Coatings, 1191 S. Wheeling Rd., Wheeling, Ill.<br>GS-10S-43884 | Interim noncompliance, March 5, 1981........ | Interim compliance, April 13, 1981............. | Incomplete recordkeeping to demonstrate efforts to meet goals.<br>Lack of evidence of good faith efforts to comply with plan. Contract is currently in interim compliance as of April 13, 1981. |
| Bendix, Inc., Energy Control Division, 717 N. Bendix Dr., South Bend, Ind.<br>F41608-80-D-A015<br>F41608-80-D-A022<br>N00383-79-G-9904 | Interim noncompliance, November 12, 1980. | Interim noncompliance May 6, 1981........... | Contractor's position to utilize only the aggregate data set forth on the DD 1140-1 and SBA Form 745 to demonstrate compliance with Public Law 95-507 requirements. |
| Deere & Co., John Deere Rd., Moline, Ill<br>Commercial product: 54-3187-1-18 | Interim noncompliance, March 31, 1981...... | Interim noncompliance, March 31, 1981...... | Lack of proper coding as to size and classification of vendors. |
| Enterprise Chemical Coatings, 1191 S. Wheeling Rd., Wheeling, Ill.<br>Commercial product: GS-10S-43522 | Final noncompliance, March 5, 1981........ | Final noncompliance ................................ | Incomplete recordkeeping to demonstrate efforts to meet goals.<br>Lack of evidence of good-faith effort to comply with plan. |
| Firestone Industrial Product, 1700 Firestone Blvd., Noblesville, Ind.<br>M67004-80-C-0154 | Interim noncompliance, November 14, 1980. | Interim compliance, February 17, 1981....... | Lack of proper coding as to size and classification of vendors. Contract is found to be in interim compliance as of February 17, 1981. |

ENCLOSURE I—Continued

| Company's name and contract numbers | Evaluation/review date | Follow-on evaluation/review date | Discrepancies noted |
|---|---|---|---|
| Goodyear Tire & Rubber, St. Marys Plant, P.O. Box 215, St. Marys, Ohio.<br>DAAE07-80-C-0165<br>DAAE07-81-C-0172 | Interim noncompliance, March 19, 1981 | Interim noncompliance | Information not available to indicate that large business subcontractors who receive subcontracts in excess of $500,000 complied with the entitled "Utilization of Small Business Concerns Owned and Controlled by Socially and Economically Disadvantaged Individuals." Nothing available to indicate Goodyear is reviewing or monitoring such plans. |
| Illinois Institute of Technology, 3300 S. Federal St., Chicago, Ill.<br>F49620-80-C-0053 | Interim noncompliance, October 30, 1980 | Interim compliance January 13, 1981; Interim compliance May 13, 1981. | The absence of a bidders list coded by large business, small business or small disadvantaged business status.<br>The Plan Administrator's inability to determine with any certainty, which purchase orders had been placed with small business and small disadvantaged business.<br>Lack of initiatives aimed at assuring compliance with the plan goals. |
| Jeffboat, Inc., 1030 E. Market St., Jeffersonville, Ind.<br>DACW61-80-C-0038 | Interim noncompliance, January 29, 1981 | Interim noncompliance | Lack of proper coding as to size and classification of vendors.<br>Lack of planned subcontracting total dollars. |
| KDI, Precision Product, Inc., 3975 McMann Rd., Cincinnati, Ohio<br>DAAA09-80-C-0053, P00001<br>DAAK21-80-C-0047<br>DAAA09-80-C-0190<br>DAAA09-80-C-0150, P00001 | Interim noncompliance, December 11, 1980. | Interim compliance, February 26, 1981; Interim compliance, June 2, 1981. | Lack of proper coding as to size and classification of vendors. Contracts are currently interim compliance as of February 26, 1981. |
| Motorola, Inc., Communications Group, 1301 Algonquin Rd., Schaumburg, Ill.<br>Commercial product: N 39-80-C-0296 | Interim noncompliance, October 27, 1980 | Final compliance, March 13, 1981 | Contractor unable to provide information pertaining to the overall accomplishments against its approved fiscal year 1980 Annual Small Business and Disadvantaged Business Subcontracting Plan. |
| Onan Corp., 1400 73d Ave. NE, Minneapolis, Minn.<br>Commercial product: GS-04S-23587 | Interim noncompliance, February 5, 1981 | Interim noncompliance, June 10, 1981 | Lack of records to demonstrate compliance with subcontracting plan goals. |

## ENCLOSURE I—Continued

| Company's name and contract numbers | Evaluation/review date | Follow-on evaluation/review date | Discrepancies noted |
|---|---|---|---|
| Sunstrand Aviation Operations, Advanced Technology Group, 4747 Harrison Ave., Rockford, Ill.<br>F33657-80-C-0036<br>F33657-80-C-0036, P00001<br>F34601-80-G-0192, SM07<br>F04606-79-C-1155<br>F34601-80-C-0192, 0075<br>F34601-77-A-0177, S701<br>F34601-77-A-0177, 1551<br>F34601-80-G-0192, 0007<br>F34601-80-G-0192, SM28 | Interim noncompliance, March 19, 1981...... | Interim noncompliance, May 29, 1981......... | Continued inability to report subcontract placements against individual plans. |
| Teledyne Continental, 76 Getty St., Muskegon, Mich.<br>DAAE07-80-C-0200<br>DAAE07-80-C-0207<br>DAAK30-80-C-0051 | Interim noncompliance, November 18, 1980. | Interim compliance, February 24, 1981; interim compliance, June 2, 1981. | Failure of the contractor to produce current, properly coded, contractually identified subcontracting records. Contracts are currently in intrerim compliance as of February 24, 1981. |
| Wayne Corp., Wayne Transportation Div., Industries Rd., Richmond, Ind.<br>Commercial product:<br>GS-00S-79304<br>GS-00S-13316 | Interim noncompliance, November 7, 1980.. | Interim compliance, March 11, 1981.......... | Records available did not identify sources as to large, small or small disadvantaged business firms. |
| West Publishing Co., 50 W. Kellogg St., P.O. 3526, St. Paul, Minn.<br>Commercial product:<br>GS-01S-07159<br>GS-01S-07581 | Interim noncompliance, February 9, 1981.... | Interim noncompliance, June 9, 1981.......... | No records available to reflect small business, small disadvantaged business solicitation on awards in excess of $100,000. No evidence of "outreach" efforts of contracts with small business or small disadvantaged business trade association. No evidence of subcontracts with large business and flow-down of clause requiring subcontract. |
| University of Minnesota, 1919 University Ave., St. Paul, Minn.<br>N01-HV 22971, 12<br>N01-HV 2-2915-L, 13 | Interim noncompliance, November 19, 1980. | Interim noncompliance, February 6, 1981; interim compliance, June 8, 1981. | No records of subcontracting accomplished toward attainment of subcontracting plan goals. Contracts are in interim compliance as of June 8, 1981. |

Mr. **Clark**. Thank you, Mr. Chairman.

In terms of the dollar amount under the subcontracting provision for fiscal year 1980, do you have data which reflects the percentage and dollar amount of contracts which have been awarded to socially and economically disadvantaged businesses for fiscal year 1980?

Mr. **Herman**. Are you addressing me, sir?

Mr. **Clark**. To whomever would like to answer, respond to the question.

Ms. **Harrigan**. Socially and economically disadvantaged does mean the 8(a) side.

Mr. **Clark**. Excuse me.

Ms. **Harrigan**. Are you talking about the subcontractors?

Mr. **Clark**. I am still talking about subcontracting.

Ms. **Harrigan**. All right.

My recollection is Public Law 95-507 became effective October 1978. I do not have those figures.

Mr. **Clark**. Are those figures compiled in the regional and the district office, or in the regional office? In other words, what I am trying to find out is exactly if an individual says that the agencies are not complying with the subcontracting provisions, is there a way that we can ascertain whether or not there is or is not compliance? And the only way we can do that is to find out the dollar and the percentage of awards that have been made in a particular fiscal year.

Ms. **Harrigan**. I am certain that we can put those figures together for you.

Mr. **Clark**. Would you, please?

Ms. **Harrigan**. Certainly.

Mr. **Clark**. Thank you, Mr. Chairman.

Mr. **Savage**. Pardon me, Mr. Chairman.

Mr. **Mitchell**. Yes, Congressman Savage.

Mr. **Savage**. Pardon me. The gentleman, Mr. Herman, let me ask you, because I am a bit confused, you are aware of contractors who have contracted with the Government on conditions that they would have black subcontracting, right?

Mr. **Herman**. Yes, sir.

Mr. **Savage**. Now you have a room here filled with black subcontractors, or potential subcontractors, or whatever. Do you communicate that information? Say, for instance, you have 10 contractors who are short of some subcontractors in certain areas. Say they are short in total of 20 subcontractors, minority subcontractors. Do you convey that information to the minority contracting community? Is there any program that does that?

Mr. **Herman**. None that I am aware of, sir.

Mr. **Savage**. Well, if you are interested, and I am sure you are——

Mr. **Herman**. Certainly, I am.

Mr. **Savage** [continuing]. In minority businesses gaining these subcontracts, which is the whole purpose of the law, and you know of some openings, isn't it your obligation to pass that knowledge on to those who can fill those openings?

Ms. **Harrigan**. Congressman Savage, we have a somewhat informal informational system. For example, we are having two procurement conferences here in the State of Illinois, August 4 and 5, cosponsored by Senators Dixon and Percy. Those kinds of events serve to publicize all phases of the procuring activity.

Now, we have been under, for budget reasons, a bit of a constraint during this fiscal year; in other words, since October 1, 1980, to limit our outreach in those kinds of events. However, that is a very common method.

Mr. Savage. Well, again—pardon me.

Mr. Mitchell. Go right ahead. I think you are going to raise the same question that I had.

Mr. Savage. Go ahead, Mr. Chairman.

Mr. Mitchell. Fine. I think these procurement conferences and seminars are great. But what Congressman Savage is alluding to is that day-to-day, week-by-week appearance of contracts.

Mr. Savage. Precisely.

Mr. Mitchell. How do you get the word out to the people in this room on those?

Mr. Herman. The thing about it is, Congressman Mitchell, we, of course, have many people come into our office, both small business and minority as well, seeking information, and we do have data that we present to them.

For instance, one of the things that we consistently invite their attention to is our procurement automated source system, which does list small businesses and common business——

Mr. Mitchell. I understand where you are going. Let me just—and I am taking your time now, but I will give it back to you. Can you name the last three agencies that had contracts that you knew about, Interior, DOD, anybody, any three agencies?

Mr. Herman. I don't quite follow your question, sir.

Mr. Mitchell. All right, can you name any projects under Public Law 95-507 where a prime was identified and the word got out about that prime under that contract for the prime under Public Law 95-507, and the prime was then notified about the requirements under the law that he had to have a mandated subcontractor involved?

Could you name three such prime contractors?

Mr. Herman. Well, I can give you one immediately, sir, Magnavox Electronics.

Mr. Mitchell. OK, now hold it right at Magnavox. I have got to go back to teaching school.

That was a prime——

Mr. Herman. Yes, sir.

Mr. Mitchell [continuing]. Under Public Law 95-507, which would be required under law to have a subcontractor to meet the provisions of the law?

Mr. Herman. Correct, sir.

Mr. Mitchell. How many in the audience heard about that Magnavox prime contract? May I see a show of hands, please? One.

OK, could you name one more?

Mr. Herman. Gould Oceans Systems Division, Cleveland, Ohio.

Mr. Mitchell. Gould Oceans Systems Division. That is a prime under Public Law 95-507 that should have had a mandated subcontracting plan?

Mr. Herman. Correct.

Mr. MITCHELL. How many of you heard about the Gould contract? May I see a show of hands, please?

Two.

Something is wrong. Something is wrong.

I yield back my time.

Mr. SAVAGE. I don't want to appear to be badgering you, and you are very kind to stay with this. I am sure you want this law fulfilled. That is your purpose, right?

Mr. HERMAN. Correct, sir.

Mr. SAVAGE. It should also be obvious to you that the information is not getting out. Again, I can't guarantee what is getting out to women. But one thing you can see from this audience is that it is not getting out to blacks, right? Would you concede that, Mr. Herman?

Mr. HERMAN. Yes, sir.

Mr. SAVAGE. Now, the overwhelming majority of blacks who are in business that could meet these subcontracting requirements don't just merely reside in Illinois, but because of our pattern of segregation, reside in three congressional districts in this State. That is the first, represented by my colleague and friend, Harold Washington; the seventh on the west side of this city, represented by the distinguished Cardiss Collins; and my own, the second.

Now, if you are so considerate as to have these procurement conferences with the two fine Senators of our State, and since you also have a staff shortage because of the reduction of some 10 percent in your staff which has to be reflected in hurting your outreach program, right?

I have a staff of 14 people in Chicago, and I want to help you fulfill your task. Why don't you just simply phone my office, Mr. Herman, 374-5000, Luana Peters, Ms. Peters, P-e-t-e-r-s. And, of course, I am sure my colleagues will invite you to do the same, whenever you have any prime contractor with some openings for minority subcontractors. You don't need an outreach person, just call her.

She will see and make it available, and you pass out the word that all minority contractors interested in this subcontracting program, just contact that office. I am not suggesting only that office, just call that office. We will keep you posted. We will put in our monthly newsletter. We will help you get the information out.

Do you have any other suggestions? You will do that?

Mr. HERMAN. Yes, sir.

I would like to make this additional comment. Perhaps I should have stated it earlier. It is a matter of practice in our office where we know of requirements, and particularly where there is difficulty in satisfying those requirements as far as the established goal, I am talking about the prime contractor having difficulty, we do consult with our Mr. Gordon who handles the MSB COD program, and request from him a list of potential contractors. Of course, they are 8(a)'s.

Mr. SAVAGE. Well, as commendable as that effort has been, it obviously has been inadequate. I want to help you.

Mr. HERMAN. Certainly, we would appreciate all help, sir.

Mr. **Savage**. Now there are some other agencies, too, represented here today who might be willing to help you. There was a Mr. Brooks here from CEDCO. Is he still here?

And there was a Mr. Williams from minority procurement. And there was Paul King, president of—what was your group?

Mr. **King**. National Association of Minority Contractors. We would be delighted to help.

Mr. **Savage**. They were all right here, and all you need is just to pass this information, not instead of what you are doing, but just in addition, pass it on to these gentlemen.

Would you write down, Mr. King, how you can reach those three organizations? And get them to Mr. Herman there.

I want to thank you very much.

Mr. **Mitchell**. And I want to indicate——

Mr. **Savage**. Pardon me. Pardon me. Excuse me just one moment.

There is Operation PUSH. The Reverend Jesse Jackson, the national president of Operation PUSH is sitting here next to testify. He really has facilities with a staff who can disseminate this information. In fact, you have a business department, a minority business department, don't you?

Reverend **Jackson**. Picket signs also.

Mr. **Savage**. I beg your pardon?

Reverend **Jackson**. Picket signs also.

Mr. **Savage**. Well, would you like to have that information, too?

Reverend **Jackson**. Yes.

Mr. **Savage**. So add, Mr. King, Operation PUSH's phone number, FREEDOM, add that to it and give it to Mr. Herman.

Mr. Herman, how frequently will you do that?

Mr. **Herman**. We will do it consistently.

Mr. **Savage**. What frequency does consistent mean?

Mr. **Herman**. We will do it on a daily basis.

Mr. **Savage**. That is it. Let me know, incidentally, you agencies, if you miss any days. I am sure you won't.

Mr. **Mitchell**. I just want to comment, you see the enormous support that we want to give to you. Really, I am not being facetious now, and I know Congressman Savage is not. With limited staff, cuts in funds, you need all the help you can get, and I think this is beneficial.

I will close this out by saying that it is my impression that when you are rated against all the other offices, you are doing a pretty good job. But I would add onto that the statement that I always give to my staff: You can do more, and you can do better.

Thank you very, very much for being a participant in this program. We really appreciate it.

Mr. **Herman**. Thank you.

[Ms. Harrigan's prepared statement with attachments follows:]

### Prepared Statement of Donna R. Harrigan, Regional Administrator, SBA

Mr. Chairman and members of the committee: It is a pleasure for me to appear before you today.

As you know, I am the Regional Administrator of the Small Business Administration, a position from which I administer the activities of a regional office, seven district offices, five branch offices, and a post of duty in six states throughout the Midwest.

I know, however, your greatest interest is in Illinois. Thus I shall concentrate my comments on the activities of SBA in this state and the problems confronting small business people in Illinois.

In addition to the Regional Office, there are two SBA offices in Illinois—a District Office with 67 employees in Chicago and a Branch Office with 21 employees in Springfield.

Additionally, SBA resource centers are maintained at chambers of commerce offices in 20 cities. SBA also works to provide management assistance to small business people through 8 Service Corps of Retired Executives (SCORE) chapters in the state and through 20 colleges and universities involved in our Small Business Institute program.

It is my opinion that SBA has functioned quite well in Illinois, despite economic conditions which are far from good.

Accordingly, for Fiscal Year 1980, the Chicago office was named the top district office in this region and Chicago's Minority Small Business unit was honored as SBA's finest working unit in the nation.

During fiscal year 1980, with a goal of $158 million statewide, SBA's business lending total reached more than $175 million. More than $423 million of this was directed toward minority-owned businesses through our guarantee and direct lending programs.

The Minority Small Business Unit, to which I alluded, works to maximize SBA aid to minority and socially and economically disadvantaged clients. It does so primarily through the 8(a) program, through which SBA enters into prime contracts with federal agencies and departments and then negotiates the contracts with certified 8(a) firms, and the 7(j) program, through which SBA can hire management consultants to aid socially and economically disadvantaged firms.

As you know, the 8(a) program has been a problem area in SBA. It has received criticism from the public, the Congress, the GAO, and the SBA Inspector General. Our new Administrator, Michael Cardenas, has moved swiftly to deal with these problems. On May 1 the Administrator announced new policies for the management of the 8(a) program that are intended to turn the program around and enable it to realize its promise.

The following are some of Administrator Cardenas' changes:

1. Broad new policies have been instituted to assure that all 8(a) firms are small by SBA size standards.

2. A Fixed Program Participation Term for 8(a) firms is in the process of adoption. Public Law 94-481 requires the promulgation of regulations on the establishment of criteria and methodology for arriving at the mutually agreed upon fixed period for program participation. On June 1 Administrator Cardenas published in the Federal Register a proposed rule establishing a maximum term to be negotiated between SBA and program participants, with a maximum term of three years for service frims and five years for other types of firms. SBA strongly believes that such program modifications are necessary. The purpose of the 8(a) program is to assist eligible firms to develop to their fullest potential to compete in the private sector during the time they are in the program. It is a helping hand into the competitive, free enterprise system. This goal cannot be met if firms continue to remain in the program indefinitely.

3. A temporary moratorium has been placed on the acceptance of new applications for participation in the 8(a) program until a procedure can be developed comply with Section 106 of Public Law 96-481. The implementation of that section requires the establishment of internal procedures for the basis on which the fixed period of time for program participation will be determined. Upon the implementation of these procedures, including training of SBA field personnel, the moratorium be lifted.

4. The policy has been established that Regional Administrator may only approve the expenditure of Business Development Expense funds up to 15 percent or $50,000 on a single 8(a) subcontract. Expenditures in excess of these amounts require approval of our Central Office.

The action to control more closely Business Development Expense funds is the first step formally implementing policies and corrective measures necessary to resolve abuses pointed out in SBA Inspector General reports.

5. The Administrator has restructured the authorization level of the Regional Administrators in the use of advance payments. Any intended use of advance payments in excess of 40 percent or $100,000 on a single contract must be approved by our Central Office. Additionally the use of an advance payment on more than one 8(a) subcontract by a client at a time must be approved by our Central Office. This action is a prudent management decision based upon our Inspector General's audit report entitled "Advance Payments Made to Subcontractors Participating

under the SBA Section 8(a) Program" dated April 1979. This also is the first formal step aimed at preventing future abuses of the use of an the potential loss of the taxpayers' money in the advance payments area.

These and other changes were issued on May 1, 1981. The issuance of such broad policy changes in such an expeditious manner shows the Administrator's determination to improve the management of the 8(a) program, to reduce the opportunities for fraud, and to enable the program to serve the needs of increased numbers of small socially and economically disadvantaged firms.

The Chicago Minority Small Business Unit, during fiscal year 1980, awarded more than $72 million in 8(a) contracts. This exceeded the unit's goal by $29 million, represented a 167 percent increase over the previous Fiscal Year, and amounted to 42 percent of the 8(a) contracts awarded in my region during the year.

The Unit assisted 154 firms with 7(j) resources.

During this Fiscal Year, the Chicago Minority Small Business Unit has continued its fine record. Through May, it has awarded $58.8 million in 8(a) contracts, 172 percent ahead of its pace last year. The unit has assisted 49 firms with 7(j) resources.

The lending performance of the Illinois offices during the current Fiscal Year is more mixed.

Total business lending volume in Illinois through May had exceeded $123 million. However, there had been an extensive downturn in the number of guarantee loans we have been able to make in the minority community.

Through May, minority guarantee loans throughout Illinois totaled $3,674,000, 24.2 percent of the Illinois goal for this Fiscal Year.

The general economy and the resultant high interest rates obviously are a key factor in this downturn.

High interest rates obviously are a major problem for all small businesses, and more so for minority small businesses.

Other problem areas for minority small businesses would include:

The attitude of many federal contracting officers in their relationships with SBA and 8(a) contractors.

The arbitrary withdrawal by federal contracting officers of projects from the 8(a) Program without regard for the impact on the 8(a) firm.

Inadequate coordination between SBA's Small and Disadvantaged Business Utilization Specialists and the various planning and engineering divisions of other federal agencies.

Thank you again for permitting me this opportunity to appear before this committee.

Attached hereto is specific data regarding Region V and the State of Illinois with respect to each program.

## SMALL BUSINESS ADMINISTRATION DATA, REGION V, STATE OF ILLINOIS

### *Financial assistance*

SBA financial assistance programs can be categorized several major categories:

(1) Regular business loans, including loans made under the Economic Opportunity Loan Program. This program accounts for over 95 percent of our non-disaster lending.

(2) Development Company Loans. These loans include loans under our 501, 502, and new 503 loan programs. Loans, under these programs are made to authorize community corporations, which in turn provide assistance to eligible small businesses.

(3) Handicapped assistance loans are made to organizations which employ handicapped and to handicapped individuals.

(4) Compliance loans are made to businesses which are forced to modify their operation to conform to federal standards. Examples are loans made to conform to OSHA requirements and EPA air and water environmental requirements.

(5) Physical disaster loans are made to victims of natural disasters such as floods, tornadoes and fires.

(6) Non-physical disaster loans cover a number of areas. Examples are: Businesses which have lost revenue due to general draught conditions or excessive rainfall, those displaced by highways or urban renewal, those affected by Federal Base Closings, etc.

In each of the above categories SBA makes both direct and guaranteed loans. Our direct lending is very limited, however, due to funding limitations. Less than 11 percent of the loans made last year in Illinois were direct.

The States of Illinois had a target of $132 million of guaranteed lending for business loans for the fiscal year ending Sept. 30, 1980. It approved $157.2 million of these loans. The direct lending target was $16.1 million, with $17.2 approved.

Approximately $13.3 million of the guaranteed money and $9.9 million of the direct money was provided to minorities.

Through the first 8 months of this fiscal year, $116.4 million of guarantee lending has been provided throughout the state and $6.6 million of direct funds. Of these totals, $3.9 million of direct funds have been made available to minorities, and $3.7 of guaranty funds.

There are a total of 4,481 regular business loans, in Illinois is the portfolio of which 982 are minority. Approximately 23 percent of the total portfolio is in a "trouble" category. The minority portfolio has a 35 percent "trouble" rate. (Trouble rate = the number of business loans in delinquency or liquidation versus the total portfolio.)

### *Disaster lending*

The Disaster Loan Program as revised effective March 19, 1981 consists of the following:

1. Loans to home owners (primary homes) are at 3 percent up to $55,000. The maximum for personal property is $10,000. The maximum combined for personal property and real property is $55,000. The interest rate on secondary homes is 9¼ percent.
2. On disaster business loans where credit is not available through other sources the interest rate is 5 percent. If a business can obtain credit elsewhere, a disaster loan is not available through SBA. The maximum disaster business loan is $500,000, while the amount of loss allowed by SBA is 60 percent of verified loss. Previously, 100 percent was allowed with no maximum loan amount.
3. Economic Injury Disaster Loans (EIDL) bear an interest rate of 9¼ percent with a maximum loan amount of $100,000.
4. Repayment period is up to 30 years.

Since 1978 there have been 16 disaster declarations in Illinois including one major (Presidential) declaration. Loans were made to home owners and business both farm and non-farm type businesses. Over 2000 home loans were made for approximately $7.5 million and over 600 business loans for over $12 million. A recent change in the program places responsibility for agricultural loans back with the Farmers Home Administration (FmHA). We are, however, still involved in non-farm business loans (EIDL loans) as a result of FmHA declarations and in rare instances would SBA make agricultural loans.

SBA Disaster Declarations in Illinois vary in size and duration. During the declaration for ice-storms and blizzard conditions of January 1979 approximately 1500 loans were made totalling over $10 million.

Our current portfolio of disaster loans consists of the following:

| Loans | Minority | Total |
|---|---|---|
| Home | 449 | 2,571 |
| Business | 24 | 831 |

### *Minority small business and capital ownership development division*

### *Regional office*

The Minority Small Business and Capital Ownership Development Division (MSBCOD) has the responsibility for management of the Office of Business Development functions. These include the Section 8(a) and the Section 7(j) Programs, as well as coordination to maximize the use of the Agency programs by our minority and socially had economically disadvantaged clients. The 7(j) Program is our call contract program whereby SBA provides professional consultants to assist in problem resolution. The section 8(a) Program is our business development program, one of the primary functions of which is the SBA enters into prime contracts with other federal agencies and departments and, in turn, negotiates the contracts with certified 8(a) firms.

Each District Office within Region V has a 7(j) contract with which it can provide services to socially and economically disadvantaged firms. The Regional Office has six (6) additional 7(j) contracts, as well as access to three (3) National 7(j) contracts. The Regional and National contracts are 7(j) (10) contracts, i.e. services are specifically targeted for approved 8(a) firms.

There has been in Region V, SBA, consistent growth in 8(a) goals and achievement. The goal established for fiscal year 1980 represented an increase of 120 percent over the goal for fiscal year 1979. The Region exceeded that goal by awarding a total of $170 million in 8(a) contracts.

Performance in 8(a) contract awards for the first eight (8) months of fiscal year 1981, through May 1981, is 118 percent ahead of the performance for the same period last year. The Region has awarded $97.4 million in 8(a) contracts. Therefore, we anticipate exceeding our goal for fiscal year 1981.

The Region has assisted 214 firms with 7(j) resources through May 1981. Eighty-four of the firms assisted were 8(a) firms. The Region has approved allocation of $1.3 million in business development expense funds and has fourteen (14) advance payments outstanding, for a total of $4,605,664.23.

## SCHEDULE OF 8(a) CONTRACT GOALS AND AWARDS, FISCAL YEAR 1972—FEBRUARY 1981 [1]

| Fiscal year | Number of contract goals | Dollar contract award goal (millions) | Percent of increase or (decrease) over previous year | Number of contracts awarded | Actual awards | Percent of increase or (decrease) over previous year |
|---|---|---|---|---|---|---|
| 1972 | 180 | $15.0 | | 242 | $16,084,023 | |
| 1973 | 308 | 27.0 | 80.0 | 305 | 18,676,793 | 16.1 |
| 1974 | 334 | 25.2 | (6.6) | 290 | 20,726,293 | 11.0 |
| 1975 | 315 | 20.4 | (19.0) | 226 | 21,391,488 | 3.2 |
| 1976 | 300 | 26.0 | 27.5 | 226 | 34,072,443 | 59.3 |
| 1976T [2] | 50 | 3.7 | | 58 | 6,438,493 | |
| 1977 [3] | | 39.5 | 51.9 | 250 | 47,763,544 | 40.2 |
| 1978 | | 58.5 | 48.1 | 293 | 63,560,964 | 33.0 |
| 1979 | | 72.0 | 23.0 | 360 | 90,964,386 | 43.1 |
| 1980 | | 158.7 | 120.4 | 493 | 170,280,988 | 87.1 |
| 1981 [4] | | 178.0 | 12.1 | 181 | 97,415,673 | |

---

[1] Data was taken from internal regional records maintained manually. If compared to the SBA Management Information System publication, there will be minor variations in the data.

[2] 1976T represents the three months transitional period during the change of the Federal fiscal year end from June 30 to September 30.

[3] Fiscal year 1977 and thereafter, the Agency discontinued the establishment of a goal for the number of contracts.

[4] Fiscal year 1981 represents the period of Oct. 1, 1980 through May 20, 1981.

## MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT, SCHEDULE OF LEVEL OF ASSISTANCE, FISCAL YEAR 1981

| Category | Region |  |  | Illinois |  |  |
|---|---|---|---|---|---|---|
|  | Fiscal year goal | Fiscal year TD goal | Actual performance | Fiscal year goal | Fiscal year TD goal | Actual performance |
| 8(a) Certified companies | 215 |  | 215 | 53 |  | 54 |
| 8(a) Contract awards | $178,000,000 | $69,600,000 | $97,400,000 | $48,000,000 | $18,750,000 | $58,760,000 |
| Number of businesses assisted by 7(j): |  |  |  |  |  |  |
| Total businesses | 290 | 193 | 214 | 59 | 39 | 49 |
| 8(a) companies | 118 | 79 | 84 | 30 | 20 | 17 |
| Percent of 8(a) companies awarded one contract | 85 |  | 50 | 85 |  | 59.3 |
| Business development expense expended |  |  | $1,300,000 |  |  | $788,500 |
| Advance payments outstanding |  |  | $4,605,664.23 |  |  | $1,473,380.06 |

*Management assistance*

The Agency's Management Assistance program includes free individual counseling, courses, conferences, workshops, problem clinics, and a wide range of publications. Counseling is provided through programs established by SBA's management assistance staff, SCORE/ACE, numerous professional associations and educational institutions. Business management courses, conferences, workshops, and problem clinics are co-sponsored by SBA in cooperation with educational institutions, Chambers of Commerce, trade associations and other government agencies.

During the first eight months of fiscal year 1981, Region V has counseled 21,324 small business persons. Approximately 3,360 or 15.8 percent were minority clients. In Illinois for this period, a total of 5,351 individuals were counseled, of which 1,328 or 24.8 percent were minorities.

For the first eight months of fiscal year 1981, Region V has co-sponsored various training workshops, courses, conferences, and problem clinics for small business persons. A total of 41,204 individuals attended these sessions of which 8,447 were minorities or 20.5 percent. In Illinois, 6,922 individuals were trained of which 1,986 or 28.7 percent were minorities.

For fiscal year 1980, 50,572 individuals attended the various training sessions held in Region V. Approximately 18 percent of the total were trained in Illinois. Minorities represented 30 percent of the total Illinois attendees.

For fiscal year 1980, 27,340 small business persons were counseled in the Region. Illinois accounted for 28 percent of this total. Minorities represented 26.9 percent of the total Illinois clients.

*Surety bonds*

Since the inception of the Surety Bond Program in 1971, Region V has approved 23,000 performance bonds totalling $1,610,000,000. The region accounts for approximately 20 percent of the nation's SBA Surety Bond Program production. The average size bond approval amounts to roughly $75,000, so one can see that this is a program aimed at assisting the small contractor. In all, over 3,600 contractors have to date received assistance under the program in Region V. Illinois accounts for about 15 percent of the Regional output for the program.

After experiencing tremendous growth from year-to-year in the early years of the program, activity during the last three fiscal years has leveled off at between $250,000,000 to $300,000,000 annually. These figures represent total contract amounts.

*Minority contractors (data as of Apr. 30, 1981)*

During fiscal year 1981 in Region V thus far we have approved 310 bonds for Minority contractors totalling $26,594,000. Minority approvals account for 19.6 percent of total approvals throughout the Region.

From the inception of the Surety Bond Guarantee Program (SBG) in 1971, Region V has approved 3,595 performance bonds to Minority Contractors totalling $250,213,000.

Pro-rating Illinois' historic 15 percent of the total, we estimate we have approved 540 final bonds totalling $37,531,950 throughout the State of Illinois since the inception of the "SBG" program.

Since December 1, 1976, when the SBA began to compile these figures, SBA has assisted under the Surety Bond Guarantee Program some 561 Minority Contractors as follows:

| | |
|---|---|
| Blacks | 467 |
| Puerto Ricans | 6 |
| American Indians | 31 |
| Spanish Americans | 45 |
| Asians | 12 |
| Total | 561 |

*Advocacy*

SBA's Regional Office of Advocacy has:

(1) In conjunction with various state officials, encouraged and participated in a study of small business problems which culminated in a Legislative Conference on Small Business in Springfield. This two day conference involved state executive and legislative leaders and small business people in a discussion of small business problems and resulted in the introduction of legislation to assist small business into the current Illinois legislative session.

(2) Participated in hearings in Chicago at which small business owners, estate planners, and tax experts offered testimony on the difficulties small family firms

face in attempting to survive when the principal dies or wishes to pass the business on to family or employees.

(3) Encouraged the growth of small business awareness in various business organizations. As a result of this activity, new small business groups have been formed and existing organizations have greatly increased their activities in the small business area.

(4) Worked on a one-to-one basis with small firms to resolve problems with various federal agencies. These cases range from simple referrals to complex regulatory and procurement cases, taking many months to resolve.

(5) Transmitted to the Chief Counsel's office in Washington information as to the small business policy implications of various federal actions. Also, the Regional Advocate transmits information to the organized small business community as to pending federal policy decisions in the tax and regulatory areas which may have an impact on them.

The Regional Advocate currently is representing SBA in a cooperative effort with the Illinois Congressional delegation to hold a two-day procurement assistance program highlighting procurement opportunities for small business as a result of the five percent differential now allowed on bids from labor-surplus areas.

*Procurement Assistance*

### *Prime contracts program*

The Prime Contracts Program involves two (2) categories—Prime Contract Awards to small business firms and Small Business Set-Aside Awards. The level of activity presented is based on Prime Contract Set-Aside Awards made by eleven (11) Federal Acquisition Centers covered by six (6) Regional Procurement Centers Representatives.

| | *Millions* |
|---|---|
| Fiscal year 1980: | |
| Total awards | $11,766.9 |
| Prime contract awards to S.B. | 1,387.5 |
| Set-aside awards to S.B. | 433.5 |
| Fiscal year 1981 thru March 31, 1981: [1] | |
| Total awards | 6,223.3 |
| Prime contract awards to S.B. | 605 |
| Set-aside awards to S.B. | 243.5 |
| Fiscal year 1980—Illinois prime contract awards | 1,741.6 |
| Fiscal year 1981 thru December 31, 1980 [2] | 291.5 |

[1] Source: SBA form 843.

[2] Source: Federal Procurement Data Center.

### *Subcontracting assistance program*

The Subcontracting Assistance Program covers two (2) categories—Plant reviews which are generally an annual review of the large prime contractor's overall subcontracting effort with small and small disadvantaged business firms and—compliance reviews of individual contract subcontracting plans in accordance with Public Law 95-507 which requires each contract of $1,000,000 for construction and $500,000 in the case of all other contracts awarded to large business include as a material part of the contract a plan which establishes individual goals for awards to small and small disadvantaged business firms.

### *Prime contractor's overall subcontracting effort* [1]

| | *Millions* |
|---|---|
| Fiscal year 1980: | |
| Total subcontract dollars | $2,754.6 |
| Awards to small business [2] | 1,395.2 |
| Awards—Illinois | 503.2 |
| Fiscal year 1981 thru March 31, 1981: | |
| Total subcontract | [3] 2,282 |
| Awards to small business | 994 |
| Awards—Illinois | 206.5 |

[1] Represents 47 large prime contractors in voluntary program.

[2] Small business recipients are located throughout the United States.

[3] Represents 120 large prime contractors.

## FISCAL YEAR 1980 NUMBER OF REVIEWS

| | Region V | Illinois |
|---|---|---|
| Plant | 47 | 14 |
| Subcontracting plans | 415 | 77 |
| Subcontracting plans in noncompliance | 26 | 14 |

## FISCAL YEAR 1981 THRU MAY 31, 1981

| | Region V | Illinois |
|---|---|---|
| Plant | 120 | 30 |
| Subcontracting plans | 1,106 | 213 |
| Subcontracting plans in noncompliance | 43 | 30 |

### *Technology assistance program*

The Technology Assistance Program provides advice, counsel, and technology search and retrieval help to small firms requiring technical assistance in research and design efforts, state-of-the-art materials and processes, new product development and modern production techniques.

| | |
|---|---|
| Fiscal year 1980: | |
| Total cases completed | 309 |
| Total cases completed (Illinois) | 108 |
| Fiscal year thru May 1981: | |
| Total cases completed | 564 |
| Total cases completed (Illinois) | 201 |

### *Size program*

Part 121 of SBA's Rules and Regulations provide the policy guidance applicable to size determinations. Facts pertinent to each case are analyzed for compliance with regulatory guidance and reviewed for legal sufficiency. Determinations are documented and all concerned parties are advised of the determination with the right of appeal. Size determinations are to be completed within ten (10) days (if possible) and size appeals must be received within five (5) working days after receipt of a determination.

| | |
|---|---|
| Fiscal year 1980 statistics: | |
| Total received | 88 |
| Illinois | 20 |
| Fiscal year 1981 statistics: | |
| Total received | 53 |
| Illinois | 16 |

In addition to the formal requests received for size determination, a total of 303 requests for size data have been processed during fiscal year 1980 and 1981, of these, a total of 98 have been received from Illinois firms. It is to be noted that these requests are not considered binding determinations.

### *Procurement automated source system—P.A.S.S.*

P.A.S.S. is a source referal system that enables small business firms interested in doing business with Federal Acquisition Centers and large prime Government contractors to register their company and their capabilities into a centralized data base. P.A.S.S. "retrieval" terminals are located in the SBA's ten (10) Regional Offices, major Acquisition Centers and large prime Government contractors. There are 75 terminals currently in use throughout the country with more planned in the near future. There are currently over 50,000 small business firms (small, disadvantaged and women owned) in the P.A.S.S. centralized data base.

### *Region V data base statistics—number of companies*

| | |
|---|---|
| Manufacturing | 3,888 |
| Construction | 1,419 |
| R. & D. | 1,487 |
| Services | 4,105 |

### *Data base statistics—Illinois*

| | |
|---|---|
| Manufacturing | 975 |
| Construction | 315 |
| R. & D. | 393 |
| Services | 1,200 |
| Total number of small disadvantaged | 374 |
| Total number of women owned | 381 |

### *Region V fiscal year 1980—total number of source requests*

| | |
|---|---|
| Requests: | |
| Region V | 382 |
| Illinois | 105 |
| Sources supplied: | |
| Region V | 12,200 |
| Illinois | 3,900 |

### *Region V fiscal year 1981 thru May 31, 1981*

| | |
|---|---|
| Requests: | |
| Region V | 155 |
| Illinois | 68 |
| Sources supplied: | |
| Region V | 4,745 |
| Illinois | 1,250 |

### *Certificate of competency*

The Certificate of Competency (COC) procedure is one of the means authorized by the Congress to help small concerns obtain Government contracts. Its purpose is to assure fair treatment of small business and amounts to an appeal from a previous decision of the buying agency that the low bidder can not meet the requirements of the solicitation.

A COC is accepted as conclusive by the contracting officer without any further requirement concerning responsibility or eligibility.

### REGION V

| | Total referrals | Applications | COC issued | Value |
|---|---|---|---|---|
| Fiscal year 1980: | | | | |
| Region V | 508 | 177 | 108 | $18,810,875 |
| Illinois | 149 | 68 | 34 | 8,366,447 |
| Fiscal year thru May 1981: | | | | |
| Region V | 253 | 71 | 42 | 5,804,732 |
| Illinois | 70 | 25 | 16 | 1,768,619 |

Mr. **Mitchell**. Is Mr. George Jones here? Did he come back? Mr. Jones, it is good to see you. I wanted to request, you are next to testify, and I understand that Rev. Jesse Jackson is under a tight timetable; would you object to letting him go first?

Mr. **George Jones**. Not at all.

Mr. **Mitchell**. All right.

It is always good to see you, Mr. Jesse Jackson. Guess what? This Chair is imposing a 12-minute limitation on all testimony. Would you believe it? And I am armed with a gavel. It is good to see you, Jesse. Thank you for coming in.

## TESTIMONY OF REV. JESSE JACKSON, PRESIDENT, OPERATION PUSH

Reverend JACKSON. Mr. Chairman, Congressman Savage, Staff Director and others who are here, I have submitted for the record our written assessment and recommendations.

I want to share with you, and take less than 12 minutes, of what I see as the crisis unspoken to. During this period, I think it is more important than ever. A part of my testimony is "Don't choke on Coke" campaign. That, I think, is very germane to what we are trying to do.

I have several points. No. 1, black businesses, in my experience, are victimized by policy of nondevelopment by the public and private sectors. They are victimized by the game being played by two sets of rules.

We spend a lot of time looking for rulers or qualified people. But we are not suffering from lack of rulers or qualified people. We are suffering because the rules keep changing on us. That is what Mr. Herman's testimony is all about. It was about rules and how rules are implemented.

It is significant, in our observation, that we are discussing SBA and various titles, and EEOC in 1981 which is on the demand side of the ledger. And even 100 years ago, we focused on the supply side. The Freedmen's Bureau was about institutional building, about hospitals and banks and land. And today, at best, we are talking about pieces.

I submit to you that during these past years—Mr. Chairman, since you have really been in the leadership of this—we have been hurt not only by noncommunication, willful noncommunication, but even by immigrants getting the same treatment as slaves, and our conditions are 180 degrees apart. The old national origins' argument has served to weaken the attention that should be focused on black business.

There is a reason why the Cubans are coming into Miami developing, and why Israel is developing, and why the Caribbean is developing. The reason has nothing to do with their inherent intelligence and our inherent ignorance. But the rules, the Cubans, and the Israelis, and the Caribbeans, are being protected by, are different than the rules that we are being protected by.

Thus, four points: One, I am convinced that the formula for black business development must change. One goes to Peking or Russia or Nigeria or Mexico or Tel Aviv or the Caribbean, you cannot just take jobs, because if you just take jobs, that is loyalism. The nonpaying jobs are slavery. You must take inherent in the structure a supply side commitment for development.

The Government and the private sector does business in our community by rules that are inherently undevelopmental. Even when the poverty-type programs come to town, they come bringing fish, and rotten fish, but never canes. The poverty money, for example, the small business money, is not in the small bank. It ought to be inherent that these offices here, since it is about small business, ought to be banking in the small business. The contractors for them ought to automatically be small business.

More specifically, black business, if that is in fact that which was the "cat in the cage" to make it happen in the first place. I contend in some instances we have been further deceived not only by the national origin argument, but sometimes they have brought in Muzorewe and confusion is on the black face, and not dealt with Mugabe, which is more about new rules than new rulers.

The rules, Mr. Congressman, are stacked against us.

Second, the focus on the supply side must be a part of our thrust, not deny the need for jobs and consumer protection and all of that. But on the supply side, which goes into our struggle now with Coca-Cola.

As an example, we are demanding from them reciprocity. They want to give us some taste and some jobs, but no reciprocity. They want to make us an appendage to, rather than a part of, the company.

All the SBA represents and the Government agencies—I might share in the record just a few basic facts about one company that does business with us. Black Americans invest in Coca-Cola nationally, 14 percent of their national market. And in the 50 key markets where 68 percent of us live, 25 percent of all of their business is black. We bought 480 million dollars' worth of Coca-Cola in 1980.

The lack of reciprocity has not been offset by any Government program or commitment thereto. You look at Coca-Cola with 18 members of the board, nonblack; 550 bottler franchises, nonblack; 4,000 wholesalerships, nonblack; $186 million on domestic advertising, less than $500,000 on blacks, and they offered to increase this amount by $25,000 for 9 magazines next year, and $50,000 for 225 newspapers next year. They refuse to follow through on a commitment to a venture capital company. They have $254,000 in 10 black banks.

The point is, I submit to your committee, that until and unless we change the rules in the private sector and challenge the Government to protect this struggle for rule change, and that the Government in fact that represents us protects us by changing the rules, then we will be dangling forever in administrative procedure.

That is no accident when Mr. Reagan says, even though it is for the wrong reasons, umpteen million dollars came to the black community in the last 20 years, and there is no evidence that anything happened.

To one extent, he is right. The extent to which it came into us, through us, and out of us with no commitment to supply-side development by law, then we got fish, and rotten fish, and now no fish. But there never was a legal commitment to development.

So I am suggesting to you that our appeal to you is to help us, as you have done with your 8(a) thrust, and other rule changes that make it illegal. And that law must be enforced not to cut us in on the supply side.

Last, I suggest to you that we must see the black community as a nation within a nation, and not something called minority. Because if we see it as a minority, we will treat it minorlike. We are not being consistent with our historical experience to see us as anything but an underdeveloped nation. It requires the same treatment as any other underdeveloped nation or any hyphenated group, hyphenated meaning less than.

We treat Cubans differently than black Americans, and better than, fundamentally because we treat them with a formula for development. And we treat the Israelis different than and better than, and others, because we treat them with a formula.

I submit, short of a formula, at some point on the curve, equity and parity is the result, then the various little maneuvers they send us through will keep us very busy, Mr. Chairman. But after 15 years of direct involvement in this, I submit to you, short of that, nothing will happen.

Mr. **Mitchell**. Thank you for a very provocative statement. Obviously we are in sync again, as always. The name of the game is economic empowerment. That is the name of the game.

I won't ask you to comment on it now, but for starters, will you take a look at the Kemp-Garcia urban enterprise zone bill, and see to what extent and degree that can begin to address this problem?

I have not cosponsored that legislation. I think the concept is good. But I would want to see a piece of legislation dealing with urban enterprise zones where it becomes the economic development within the urban enterprise zone, rather than an entity moving in to create jobs. And the salaries, the wages from those jobs will simply leave our community again.

I won't ask you to comment on it now, but I would really and sincerely request that you take a look at that to see how we could strengthen it.

Reverend **Jackson**. I submit to you that, in a broad sense, it has some merit because it talks of designation. We really got to talk more specifically about the black, because if we do not, the national origin would ease into the zone. And those who are immigrants came on a different ship than those who came on slave ships. And the society has not allowed us to forget which port we came from, they just will not do that. The black has, you know, like a specific within that specific category.

I would further submit that national origin and women and whatever new group it is politically expedient to use as minority, or lump in with us, and refuses to take into account our particularity.

I think that the older I get in this, the more determined I am to not let the society forget the very particulars of us. I mean, you know, Zionism takes into account the very particularness of the Jewish proposition. It isn't just some people who suffered, but a specific group of people who suffered specifically.

The black people are a very specific group of people who suffered specifically and continue to do so specifically, more by a badge of color than any other single thing. I think that we cannot let that get watered down anymore. I think what we began to witness in the last 8 or 10 years around Chicago, and I am sure Paul King and some others can testify, is at a certain point, they just lock blacks out of A&P, and Jewel, National Tea, and Certified, and picketed specifically on putting some money, not in little banks, but in Independence and Seaway and Highland banks.

At a certain point, the Government will have to come in and water that down to a category. The more it got watered down, the less it was us and became—it was like in 1976 when all of the 200 year money came to town. Everybody who came by something other than airplane was minority.

We end up being the majority minority because, you know, we came on the biggest boat, but it happened to be the less luxurious of the boats. But we was the biggest minority, by that definition. That is why I am leery of a definition of minority that we do not determine.

Mr. **Mitchell**. Let me say that it is my hunch, and I can't guarantee this, it is my hunch that we will not act on that urban enterprise zone bill in this first session of Congress. We have frittered away too much time cutting budgets.

So you have some time, and it would be significantly beneficial for me to have a real critique from your perspective on that proposed piece of legislation.

Reverend **Jackson**. Could I cut it another way? Coca-Cola, it happens to be an example—but we are going right across the line—but an example. With all of the Government loans and this and that, since we are 25 percent of their market, if we had 100 Coke bottler distributorships, which is 25 percent or slightly less than 25 percent, if we had 100 bottler distributors which is slightly less than our share, and 1,000 wholesale franchises which is about our share, and if we had 25 percent of the $179 million advertising budget, then we would have to be testifying as to how many folks we hired. I mean, we wouldn't need no special formula. We just need our share.

Mr. **Mitchell**. To the extended degree that that is done, then you can maybe do away with some of these Government programs. Maybe you can, I don't know.

Reverend **Jackson**. They have to use them to get us to hire immigrants. Then it is cheaper for somebody else.

Mr. **Mitchell**. Congressman Savage, do you have questions?

Mr. **Savage**. Rev. Jesse Jackson, you heard some of the problems of SBA discussed here before you came before us.

I wonder if you have any comment to make in response to some of those problems that were aired?

Reverend **Jackson**. Well, it is obvious from Mr. Herman's testimony that there is no program to communicate to the people who need it, the commitment. I mean, if the prime contractors ought to have to sign the statement of commitment, but ought to have to submit, before the thing is signed, the people he signed up. It ought to be on the back of the prime contractor, since he wants the contract, to leave this place and go and find who he is going to hire and bring them back, and let everybody have a signoff.

The prime contractor and the subs he signed ought to do that signoff before the director. That is a big ceremony. That is not a ceremony for the prime, and you give blind trust to the untrustworthy. The prime contractor, you get the contract contingent upon going and getting the people that make you eligible to get the contract.

Then you bring them back, and if they qualify, which makes you qualify, then all of you signoff.

Mr. **Savage**. Do you think—one last question, Mr. Chairman—that the fact that—and I want to credit Mr. Herman with this cooperativeness, his willingness to provide the group, including

Operation PUSH, and particularly Operation PUSH because of your size, his providing those opportunities, unfulfilled opportunities.

Do you think that would be a substantial help and, if so, would you be able to feel them?

Reverend **Jackson**. Yes. But, see, maybe this is a day I ate nails or something. I am not impressed with his making a commitment. He has been around town too long and he is too old to be—making the kind of money he is making, and just not figuring it out after you prodded him.

We have been around 20 years, right visible, and your congressional office and Mr. Washington's and Mr. Cardiss Collins, and Chicago chamber of commerce and the builders, we have been around Chicago a pretty good while.

And since we are the only purpose for the legislation coming to being, we should have been sought out a long time ago. So I can't believe this pudding until I taste it, and then belch it. I think there is something missing there.

I think you all discovered something, and then it became nice. I think something is missing. You got too many men here whose lives are on the line who didn't know nothing about what was going down. I mean, how could you sign the prime and trust the prime to get the subs, just trust him? Everything is so legalistic, fill out 1,000 papers. I mean, why hasn't that happened?

I don't want to suggest he is corrupt; but at least, he is careless.

Mr. **Mitchell**. Thank you very much for dropping in.

Reverend **Jackson**. Thank you.

Mr. **Mitchell**. I am serious about that critique. I am serious about that critique on urban enterprise, following a developmental line such as you suggested.

Reverend **Jackson**. I will. In the meantime, for the record, "Don't choke on Coke."

Mr. **Savage**. Rev. Jesse Jackson, just a moment. Let me just say to you, Mr. Chairman, that I happen to be aware that no one in this room has a busier schedule than the Rev. Jesse Jackson. And for him to take this time out, particularly on one of his busiest days, to come down with this testimony is reason for distinct praise and certainly further evidence, if there is ever any need of any further evidence, of how much you give of yourself for the cause of liberation in this country.

Reverend **Jackson**. Don't choke on Coke.

Mr. **Mitchell**. Mr. Jones, thank you so very much for giving Rev. Jesse Jackson a chance to testify. It is good to see you again.

Mr. **George Jones**. Thank you.

Mr. **Mitchell**. I said these are formal hearings, but in a sense they are very informal. There are men and women in this room with whom I have worked for many years and for whom I have a great deal of admiration and respect, and certainly you are one.

Mr. **George Jones**. Thank you.

Mr. **Mitchell**. Thank you, sir, we will hear your testimony now.

## TESTIMONY OF GEORGE JONES, VICE CHAIRMAN OF THE BOARD, SEAWAY NATIONAL BANK, CHICAGO, ILL.

Mr. **George Jones**. Thank you, Mr. Mitchell, Mr. Savage.

I am pleased that Rev. Jesse Jackson preceded me, because most of what I was going to say has presently been said, because he knows the program very well. He has been here with us for the last 15 or 20 years.

As you know, Congressman Mitchell, I am presently in the banking business. We look at things from a different perspective, because many of the subcontractors come to us to get seed money in order that they can prepare themselves for the jobs that they are going to perform.

We find ourselves in a precarious position in many instances because they are unprepared financially to be able to fulfill these things.

It would be of great essence if the SBA and some of the other organizations would be able to help them. I don't know how it can be done, but being a private enterprise, we have to be governed by the board and all of its stockholders. Loans are supposed to be made in a very prudent way. But that has been one of the things that has been a disadvantage to many of the subcontractors, not being able to get the initial financing in order that they then can be able to perform the job. I would like for that to be considered as to how it can be done.

Second, the affirmative action, as you know, has helped all of us, and we hope that in the near future, with all of our friends in Washington and wherever else, will help us to keep that affirmative as firm as it has been and continue to make it stronger.

There has been some Federal moneys that have come our way, such as, about 2 years ago, we had the medicare program which was serviced through our bank, and we were capable and able to handle it for a period of 2½ years.

Then it was—the last administration it went out for bid and some outfit in Texas won it. But it is obvious that your $40 billion banks can, in every way, outnumber our little $70 million or $80 million banks. But we think that there should be some differential in giving us a chance to bid on these prime contractors where Government money, many of it from our own segment, when it comes back, we are unable to handle it.

We didn't lose it because we did not have the know-how to do it. It was because of the bidding. Of course, we are only limited as to certain Government contracts—that we are aware of. Many times we are not even aware that they exist, as has been stated earlier in our discussion here.

So these are a part of what I am here for, and I will say that minorities are capable of competing on many levels if the opportunity exists.

The financial field, we are all suffering right now due to one thing or another. That is, such as the high prime rate, and the cost of money. We are fortunate, though, that here in Chicago you still have three very strong minority banks that have not felt the brunt of some of the other savings and loans and the other institutions.

But we are in dire need of some business. And I am sure that if we can get some help from the Federal Government and the feel of some of its kind of moneys that come into Chicago, you know, the CETA moneys, and the many of them. We don't get any share or any part of that. We just want a part of the Federal moneys that come into Chicago to be distributed, whatever it is.

I am sure that the three or four financial institutions, including the savings and loans, that we will be able to handle it.

Thank you.

Mr. **Mitchell**. Thank you, sir.

I just want you to recall, maybe 10 years ago when we first met with the black bankers throughout the Nation.

Mr. **George Jones**. Yes.

Mr. **Mitchell**. And we set forth a program that we wanted to embark on, more Federal deposits in minority banks. And we got that accomplished, only to find out that these high-velocity moneys that came in went right back out, and we couldn't use them.

Mr. **George Jones**. Yes.

Mr. **Mitchell**. And tracing throughout the years up to the last agreement that was worked out with Commerce and the Federal Deposit Insurance Corporation, that agreement with the minority banks, black banks in particular, that we keep struggling.

I pledge to you that you have had me for about 10 years on your side, and I am going to be right there.

I also want to publicly thank the minority banks for what they have done for small businesses, minority and black small businesses. There have been some criticisms. But my records show that the black banks disproportionately handled loans making funds available to black businesses, more than your share. You are taking up a slack where Citicorp won't cooperate and the others won't.

I think the record ought to show that that has been a consistent pattern for the 10 years that I have been in Congress. I appreciate it.

Mr. **George Jones**. Thank you, Mr. Chairman.

Since you brought that up, I will add just a footnote to that. Prior to the organization of the two largest minority banks here in the city, 16 years ago, and that is Independence and Seaway, respectively, the prime purpose of going into banking was because the minorities could not get a commercial loan. It is just that simple.

So that was our decision, to organize and supply ourselves with the financial funds that were needed.

Then, of course, after about 7 or 8 years of we being an organization, being open, they realized that we were here to stay, then all of the banks, of course, began to open their doors and make loans. But prior to our two banks, which we were the two that opened here in the city of Chicago, there were no commercial loans made to blacks. I knew very well, because I was in the dairy business and I needed to buy trucks. I couldn't even get my trucks financed.

Thank you.

Mr. **Mitchell**. Do you have anything, Congressman Savage?

Mr. **Savage**. Let me just—just for the sake of saving time, there were a couple of questions I wanted to ask, but I will just skip them.

I just want to make the observation that Mr. Jones represents a bank, Seaway National, which has been particularly outstanding regarding loans and the encouragement to the minority enterprise. I just want to say that since there are so many contractors here who we push so hard for and trying to get you your share of the action, don't forget that the whole thing becomes a circle and that it pains me when, after you benefit from our efforts, the buck stops there. You don't continue it. You let it then go fly right on out of the community.

You might want to recognize that, along with SBA, the need to bank with minority-owned banks, just as you need subcontracts for minority contractors. So when you get those contracts, don't forget how you came by them, as a consequence of the struggle of a lot of black people, and you owe.

Thank you, Mr. Jones, for taking the time.

Mr. GEORGE JONES. Mr. Savage, since you mentioned that, SBA is here, they can attest that I am in their office or on the phone fighting daily for minorities who are in need of an SBA loan or on the turnaround, the length of time that it takes for them to get funded, I personally see that it is expedited as fast as possible. Because when the loan application is presented, the presenter is generally out of business then. He needed that money yesterday.

So if the SBA is going to take 4 to 6 weeks in order to process, when everything is in order, then I say that SBA is at fault. But I work with SBA very, very closely. They know me, because I am not fighting for Seaway National Bank per se, I am fighting for that customer who is down there out of business.

We may entertain that thought that the turnaround period in getting the money, when the application is in order, meaning that all of the documents are there, that the loan should not be held up because somebody is not here today, or somebody is on vacation. That man is darn near out of business.

Mr. SAVAGE. There was a witness here, a CPA, a Ms. Fredrick——

Mr. GEORGE JONES. Yes; I know her well.

Mr. SAVAGE [continuing]. Who indicated that she thought that that problem could be helped if banks, if the opinion or the evaluation of a loan application by the bank was given more credence by SBA; is that a problem?

Mr. GEORGE JONES. Yes; that is part of the problem, unless you needle them as often as I do in order to expedite it.

Mr. SAVAGE. What do you deal with mainly, the regional or the district, the Chicago office or the regional office?

Mr. GEORGE JONES. The Chicago office.

Mr. SAVAGE. How cooperative do you find the Chicago office?

Mr. GEORGE JONES. Very cooperative for me. And it may be because I stay in their hair so much.

Mr. MITCHELL. Thank you very, very much.

[Mr. George Jones' prepared statement with attachments follows:]

### PREPARED STATEMENT OF GEORGE JONES, VICE CHAIRMAN OF THE BOARD, SEAWAY NATIONAL BANK, CHICAGO, ILL.

On Thursday, June 25, 1981, representatives from 8(a) firms throughout Region 5 met in Chicago, Illinois, at the Palmer House Hotel. The purpose of the meeting was to evaluate the critical affects of the attack by the Reagan Administration and major corporations on the Small Business Administration's 8(a) Program.

The 8(a) Program for minority business development was developed during the Nixon Administration, approximately 12 (twelve) years ago, and has been under attack for much of its existence. However, the most critical attack has occurred in recent months under the Reagan Administration. From all indications. "The handwriting is on the wall", in terms of the Program's longevity, and if it is continued, it is doubtful whether or not it will be effective.

Its intent as described in the 8(a) Program Paragraph Standard Operating Procedures (SOP) Manual is to provide a network for small firms to obtain contracts with the governmental agencies without competing with large companies and major manufacturers, which is a "no win" situation. We have asked ourselves, "How can a small firm compete with the Big Giants as they are the controllers of supply; they are the ones that set prices; and they are the ones that set market trends?" . . . Obviously, we can't—and the Reagan Administration knows this—and so do the large firms who are pressuring the governemnt to do away with the program.

The 8(a) Program expressed by Congress in Public Law 95-507 is designed to redress past wrongs against certain segments of our society which have suffered the effects of discriminations or similar invidious circumstances. These wrongs have not been made right, and the 8(a) Program is the only mechanism which provides an opportunity for minorities to participate in the Federal Procurement Process. Small Business is the backbone of our country, and in Public Law 95-507 instituting the 8(a) Program Congress was concerned about the growth of small business. Small Business is the source of the majority of the employment in this country. Through Public Law 95-509, Congress expressed a sincere concern that assistance to minority business was essential to the free enterprise system.

The 8(a) Program develops viable businesses. In September 1979, the Inspector General of SBA investigated the 8(a) Program eligibility procedures and all 1,505 companies. While there was some abuse the vast majority of companies were problem-free. In May 1980, the Federal General Accounting Office issued a report to Congress recognizing that 95 percent of all reported abuse had been eliminated and that SBA had initiated procedures to prevent future abuse.

## CORRECTIVE PROCEDURES

(1) the Problem should be corrected and expanded to include other firms.

(2) The Small Business Administration should be required to comply with the will of Congress as expressed in the Public Law 95-507.

(3) The management of the Program should be improved and strengthened.

(4) Those abusing the Program, whether Program participants, or civil servants administering the law, should be punished by fines or imprisonment/or both, if found guilty.

(5) If firms are denied support and assistance, SBA must share or bear the blame, not the 8(a) firms who are seeking parity and are doing a good job for the Federal Government.

(6) The Small Business Administration should develop a multi-tier graduation program, in conjunction with the Minority Business Community. A monitoring of 8(a) firms should be done to determine when they are stable and ready for graduation after a minimum of eight years.

(7) The Small Business Administration should be more accountable for identifying contracts for 8(a) firms and also helping them to increase their private sector business.

(8) The Small Business Administration should be given the resources it requires, rather than constantly being criticized for its performance.

The Government presently allocates less than two percent of their total procurement to minority business. This amount of one-plus percent should be increased to a minimum of ten percent or their total procurement. 8(a) contracts are presently set aside by the Small Business Administration just as contracts are set aside for non-minority business, sole source big business, or direct procurement contracts are done. 92 percent of the largest agency, the Defense Department, contracts are noncompetitive, sole source contracts for selected non-minority owned Big Business. Big Businesses are given these contracts and do not have to bid with other Big Businesses doing the same type of work. Only 8 percent of the Defense Department procurement results from advertised bids, according to Jack Anderson of The Post. Therefore, the set-aside program has obviously worked well for all size businesses.

Some 8(a) contracts are competitive bids and some are set aside, as is done for Big Business. All 8(a) contracts are negotiated in accordance with Federal Procurement Regulations by highly skilled Government contract negotiators. Earned fees are rigidly audited. The Small Business Administration does not identify potential contracts and match them to the portfolio companies. Successful 8(a) firms obtain contracts through self-marketing efforts. They identify opportunities and advise the Small Business Administration. If the Small Business Administration agrees, contracts are then negotiated after the 8(a) firms submits an acceptable technical proposal to the procuring agency.

The Small Business Administration Task Force in 1977, headed by Mr. William J. Cary currently head of the Central Intelligence Agency, concluded that the life cycle of a new business spans 10–20 years before maturity. Dr. James Walters and Dr. Hans Stohl of the Wharton School reiterated this finding in 1980. In June 1981, Dr. Walters appeared before the House Small Business committee to restate this opinion and further state this was true for all business and no less true of 8(a) firms.

Dr. Daniel C. Montano, President of Montano Securities Corporation, also testified before the House Small Business Committee on June 10, 1981, stating that all of the efforts of the 8(a) Program are useless, unless the Program allows the companies adequate time to become financially solvent and adequately capitalized before the completion of the program.

We wholeheartedly disagree with President Reagan who is reported to have stated in a recent press conference, that minority business should focus in minority communities. How can minorities support a minority community business when they are unemployed? Does this mean minority firms will be allowed to pay taxes only to the minority community they serve? We believe that the taxes paid afford us an automatic right to demand an equitable return on our investments. The 8(a) Program created 32,000 jobs at an initial cost of approximately $3,200 each, and returns an equal dollar to the Government in taxes each year, every year. The 8(a) Program pays for itself over and over again. When equating this to 13,000 lost dollars per year to support an inmate or 25,000 lost dollars per year for an unemployed worker, the 8(a) Program should be commended and protected because it reduces unemployment, and contributes to the support of the Nation . . . jobs or created . . . taxes are paid . . . Communities benefit.

We also disagree with major corporations that state the 8(a) Program is taking business away from them. Studies have indicated that foreign industries are the prime culprits that are affecting our economy and not the small firms.

The Federal Government presently set aside over 98 percent of their total contracts to Big Business. Let me reiterate, 98 percent to Big Business! It is amazing how big business is fighting to also receive the meager, less than two-percent that has been allocated to minority firms.

The Congressional intent of the 8(a) Program was to promote business development and to improve the competitive viability of minority small business firms. The intent of Congress expressed in Public Law 95-507 recognizes that: The Opportunity for full participation by the disadvantaged is essential; that members of certain groups have suffered the effects of discrimination or similar invidious circumstances; that, it is in the national interest to ameliorate these conditions; that, conditions can be improved by providing maximum opportunities; that development can be materially advanced by providing access to Federal Procurement; that such procurement encourages expansion of suppliers and encourages competition.

Big Business is attacking the 8(a) Program through the Reagan Administration to obtain the less than two percent that has been allocated to minorities that are doing a good job for the Federal Government. This is obviously a deliberate attempt by big business to obtain all or 100 percent of the Federal Procurement instead of the present 98 plus percentage.

They are again attempting to annihilate the little man, eliminate the competition, and thus, cause a monopoly. This is a serious state of affairs and a major threat to all of us and to the economic base of this country.

A counter-attack is critical for the survival of small business, and the Free Enterprise system in the United States.

I implore your support . . . in this most serious effort to offset this vicious campaign to eradicate the small minority firms only hope to have parity, and thus, truly participate in the economic system of our country.

---

SEAWAY NATIONAL BANK,
*Chicago, Ill., July 18, 1981.*

Congressman PARREN J. MITCHELL,
*Chairman, House Small Business Committee,*
*Chicago, Ill.*

DEAR CONGRESSMAN MITCHELL: Relative to Small and Minority Businesses in the Decade of the 80's: Declining Options and New Approaches, as a bank officer, my point of view follows:

A. Affirmative Action must be maintained and enforced for minorities to continue to get what small "Set A Sides" and all government contracts that become available to all business on an equal proportion base.

B. Minorities are capable of competing on many levels if the opportunity is there.

C. In the financial field, we are all suffering, only some are suffering more than others. The reasons are obvious—being shut out mainstream.

Very truly yours,

GEORGE JONES,
*Sr. Vice President-Marketing/Business Development.*

Mr. MITCHELL. Mr. Jerry Jones is our next witness. He is chairman pro tem of the concerned 8(a) firms, region V.

And while my good friend, Mr. Jones, is on the way up, I understand that Mr. Angelo Velasquez has become ill. He is chairman of the Minority Business Sub-Council, and president of the A. & R. Janitorial Services. He asked that his testimony be submitted for the record. It is submitted for the record as of this point.

[Mr. Velasquez' prepared statement follows:]

### PREPARED STATEMENT OF ANGELO VELASQUEZ, CHAIRMAN, MINORITY BUSINESS SUB-COUNCIL/CRPC, AND PRESIDENT, A. & R. JANITORIAL SERVICES, INC.

Congressman Mitchell, Congressman Savage, members of the Sub-Committee—My name is Angelo Velasquez. I am the chairman of the Minority Business Sub-Council of the Chicago Regional Purchasing Council and president of A. & R. Janitorial Services, Inc., a custodial services firm located in Cicero, Illinois.

I appear before you today to present comments on the issue of small and minority owned businesses in Region V, and particularly in the Chicago area, on behalf of the members of the Minority Business Sub-Council. The Minority Business Sub-Council is made up of close to 200 minority suppliers from the Chicago area and works to create a climate in our city conducive to the development of private sector markets for minority produced goods and services. We are an arm of the Chicago Regional Purchasing Council, an organization made up of 121 major buying organizations in the Chicago area and devoted to fostering minority purchasing.

The conditions of minority businesses in our area are not very encouraging. While we are concerned about the situation of all MBE's in Region V, our most serious concern is the problems faced by the minority supplier community of Chicago. While there are numerous federally funded business assistance programs in this area, few address the specialized needs of these larger MBE's.

Existing programs are being fully and properly utilized by minority suppliers. Many lack the resources to handle the requirements of the larger MBE's. Successful minority firms in the Chicago area still lack open access to development, capital, skill manpower and marketing resources, conditions that retard their growth and expansion.

Historically, MBE's in the entire nation have been classified as a homogeneously small and deprived business community with common problems and needs. Chicago is no exception to this method of classification. Little research has thus been conducted on the needs of the larger minority owned firm. I must thus qualify my comments by stating that they are based on extrapolations and assumptions made from available data on the total MBE population as well as on subjective input from local minotiry suppliers. All efforts have been made to treat and assess accurately the conditions and problems of the minority business community in question.

No data is available on the number of Chicago based minority suppliers. We can infer from figures compiled during the 1977 Survey of Minority Owned Business Enterprise, that out of a total 17,124 Chicago SMSA minority business population, close to 5,000 are curent minority suppliers or have immediate or potential capabilities of selling to producer markets. Based on our knowledge of the area, we have treated 60 percent of the construction, 100 percent of the manufacturing, 60 percent of the transportation, 100 percent of the wholesale, 40 percent of the selected services and 25 percent of the finance and insurance trades as current or potential suppliers. Applying these percentages, we can infer that approximately 30 percent of all MBE's in Chicago are current or potential suppliers to producer markets. It is this MBE population that has the healthiest potential of growing and expanding and that makes the greatest contributions to our economy in terms of jobs and investments. Special federally funded business assistance programs and initiatives should thus be directed at encouraging the continued growth of these firms. Although not marginal businesses, the minority supplier with sales exceeding $500,000 annually is still faced with economic inequities that restrict their growth.

With few exceptions, local federally funded business assistance programs have reinforced the traditional minority business enterprise's focus on marginal retail/service businesses with limited prospects for growth. Part of the problem lies in the fact that there is great confusion as to which government entity is responsible for assisting the minority supplier. Both the Small Business Administration and the Department of Commerce currently have responsibilities in this area. But each entity appears to have different goals and objectives. DOC's Minority Business Development Agency sees "parity" as the overall goal of its efforts. SBA targets its assistance for the very poor and disadvantaged businesses. This incongruity in goals and objectives reduces the impact of the resources being directed by both SBA and MBDA at the local minority business community.

Let us focus on the lending activity of the SBA and analyze the impact that this assistance has on local minority suppliers. For fiscal year 1981, covering from October 1980 to date, a total of 532 loans have been approved by the local District office. These loans amounted to $80M in guaranteed loans and $11M in direct loans. The average guaranteed loan was $180,000 and the average direct loan was $80,000. Given the greater operating capital requirements for the more successful MBE, this lending activity cannot sustain their continued development.

In 1978, the MBDA, then called OMBE, convened a meeting to get direct input from the larger minority business owners. Thirty-two successful Chicago minority business executives from the manufacturing, construction, selected services, wholesale and transportation industries attended this meeting. These firms employed approximately 2,000 men and women with a combined annual payroll exceeding $4.2 million and gross sales of $63.1 million. Capital development was considered by the participants as one of their most critical needs. The participants felt that the SBA lending level was insufficient and that the private sector risk was venture capital and practically nonexistant. Furthermore, it was felt that government sponsored MESBIC's were inadequately structured and capitalized to meet the increased venture, development and expansion requirements of local MBE's.

Today, two years after that meeting, the situation remains unchanged. Not only is the level of lending low, but the process involved in obtaining these loans oftentimes poses serious hardships for MBE's. SBA line of credit loans, for example, take six months or more to obtain. And despite the large financial community in Chicago, the SBA has not developed the needed relationships with the banking community to generate the private sector loans required to supplement SBA lending. SBA employees are not always equipped to work with the larger MBE and to deliver the types of financial advice and counseling that would lead to their effective utilization of the limited resources available.

Let us now look at the SBA 8-A Set Aside Program. This program is critical to the larger MBE in opening markets within the Fedeal government sector. All the firms currently participating in this program can be classified as "suppliers." Based on figures provided by the SBA, only 53 companies in the entire state of Illinois are 8-A certified. Of these, 35 are Black owned, 12 are Hispanic, and 6 are Asian-owned. The 53 8-A companies certified in Illinois represent 2.5 percent of the 2,111 companies participating nationwide. This low percentage suggests some significant regional differences in the utilization of this program. Even without figures to compare the number of 8-A certified firms in the Chicago area, we can infer from the state figure that the percentage of the 5,000 suppliers in our city that benefit from this program is very low. In 1980, in Region V, a total of 487 contracts were awarded in the amount of $163.1 million. This dollar figure looks somewhat impressive, but we must bear in mind that it constitutes a very low percentage of the gross receipts of the MBE population for Region V, which we estimate to exceed $3 billion.

The 8-A Program can be an effective tool for minority suppliers. But the program lacks structure, clear quidelines and sufficient resources. The process for being certified to participate in the program is very costly for the minority supplier in terms of the time and resources that he must invest. Once certified, he is not guaranteed that he will generate business. For example, out of the 2,111 MBE's participating in the program nationwide, only 1,404 received contracts. From personal experience as an 8-A contractor from 1971 through 1978, I can say that I received five contracts and the first two were loosing propositions for our firm. And in many instances, these 8-A contracts do turn out to be failures for the MBE who lacks the capital, skilled manpower and management expertise to handle them. The American Pouch fiasco is an example of this. American Pouch clearly failed because it lacked the management expertise required, and because assistance in this area could not be obtained. Along with the multi-million dollar contracts, the 8-A contractors should be provided capital and quality management counseling and technical assistance, all of which are available through the SBA, to perform successfully on the work.

In terms of financial assistance, the 8-A has a business development expense activity that makes funds available to program participants for capital equipment, consulting services, engineering services, interest expense, management and technical service, performance bond and price differential. Only 11 firms in Region V received this type of assistance in 1980. Of these, 5 are in Illinois. In other words, 5 out of the 53 8-A companies in Illinois participated in this business development expense activity.

Furthermore, the 8-A Program lacks clear-cut, objective and standardized criteria for graduating participants from the program. This is in part due to the confusing size standard applied to small business. I am not sure how many of us here today can define what is meant by a "Small Business." I will use my company as an example to elucidate my point. When A & R was accepted into the program in 1971, we developed a business plan that indicated a sales ceiling of $2 million as our goal. In 1978, seven years later and despite marked fluctuations in the value of the American dollar, we exceeded that goal and were abruptly terminated from the program. Needless to say, the sudden graduation posed serious financial problems for our company. Although we had over the years built a healthy private sector customer base, the profit level of the private sector contracts was much too low to replace the loss of the 8-A contracts. To my knowledge, A & R has been the only company graduated from the program in Region V.

I understand that current investigations of the 8-A graduation criteria are underway. We welcome revisions of existing guidelines. However, any new criteria adopted should take into consideration the total, financial, employment and market position of the MBE. We must bear in mind that the MBE we have termed "successful" with sales over $500,000, is still faced with serious shortcomings and does not have a sure footing in the competitive marketplace. Sales figures can be misleading. They cannot be the only criteria used in determining termination from the program.

In general, the SBA has programs that are extremely valuable for the minority supplier in our city. However, these programs have serious flaws relative to their structure, delivery and financial and human resources. In addition, these programs are substantially under-utilized by minority suppliers. Minority suppliers in our city appear not to be fully aware of the diverse assistance available through the SBA.

In terms of the Minority Business Development Agency, it is difficult to assess its effectiveness because of its fragmented service delivery approach. Many MBDA funded local programs, such as CEDCO, CRPC and NEDA appear to have similar scopes of work and to be directed at the same client group. The Minority Business Sub-Council has for the past two years worked effectively with the Chicago Regional Purchasing Council to expand private sector markets for MBE's. Both CEDCO and NEDA provide private sector marketing assistance to their clients. In our opinion, none of these organizations have the needed financial and human resources to do an effective job in this area.

The Chicago Regional MBDA office funds two projects in the Chicago SMSA for a total of $883,000. These organizations employ approximately 26 people. Based on a performance summary prepared by the MBDA, the Chicago office through its funded organizations served a total of 2,314 clients in fiscal year 1980. Chicago MBDA funded organizations were responsible for preparing a total of 583 loan packages in the amount of $42.3 million in fiscal year 1980. They were responsible for securing a total of 991 contracts in the amount of $122.2 million in that same year. In other words, assuming no repetition in services, only 25 percent or less of the clientele received assistance in preparation of financial packages and 42 percent received assistance in obtaining contracts.

Based on these figures, Chicago MBDA ranked lowest in the nation in terms of the number of procurement activity and second to last, just above Washington, in terms of the number of financial packages prepared. Amid these countless statistics, the true impact of MBDA programs on MBE growth and development remains unknown. The "activity measurement" used by MBDA, as with the SBA, is not tied to any MBE growth criteria.

Based on figures obtained in the 1972 and 1977 Surveys of MBE, we can make certain comparisons between the rate of growth of Chicago-based MBE's and the total nationwide rate. Based on this rate of growth, we can make inferences on the effectiveness and impact of local government funded programs.

For example, the number of MBE's nationwide jumped from 374,551 in 1972 to 561,395 in 1977, for a total increase of 49.9 percent. In the Chicago SMSA, there were 15,463 MBE's in 1972 and 17,124 in 1977, for a slightly over 10 percent increase. The rate of growth, based on the number of firms, for Chicago is far below that of the nation. The problems are more acute for the firms that we have classified as current or potential suppliers. For instance, while the construction trade MBE's increased in number by 31.6 percent nationwide, Chicago minority owned construction firms increased by 10 percent only. While manufacturing MBE's increased by 32.6 percent nationwide, the Chicago SMSA actually lost more than 60 percent of its minority owned manufacturing operations. Wholesale trade minority businesses increased by 32 percent nationwide, but decreased by 13.6 percent locally. Judging from the slower rate of growth that the Chicago based MBE's have experienced, we can assume that the efforts directed by local business assistance organizations are not aiding the growth of our MBE population.

Granted, there are myriad problems affecting the growth of local MBE's that transcend the SBA and MBDA service delivery systems. There are problems connected with excessive government regulations. There are problems inherent in the infrastructure of Chicago's economy. There are problems associated with the high cost of labor and the lack of management talent in the minority business community. These many and complex problems demand the need for greater and high quality assistance from government, if the minority business enterprise is to survive and prosper in our city. MBE's undoubtedly can, if properly nurtured, play a major role in our local economy by replacing the jobs and investments lost to the Sun-belt states. This is especially true of the larger and medium-size minority supplier.

In closing, we urge you to direct the administration to allocate the resources required to meet the large and urgent needs of our local supplier community. We recommend to you to direct the SBA, MBDA and other business development assistance organizations to:

(1) Delineate clear missions, complementary objectives and program scopes for all business development organizations. This would eliminate the existing incongruities in objectives, existing duplication of efforts, resulting in better coordinated services and increased cost effectiveness. A special programmatic thrust, including financial, management and marketing activities, should be directed at the minority supplier community.

(2) Develop and implement a comprehensive plan and economic service delivery network that incorporates the following components: A current, accurate assessment of minority business needs and levels of need including clear-cut eligibility criteria; clear-cut criteria for participation in such activities as the SBA 8-A Set Aside Program, with objective and uniformly applied guidelines for graduation or termination from these programs. Those problems inherent in the structure of the 8-A Program should be addressed through strong congressional action to insure effectiveness of the program. Any new guidelines adopted for the 8-A Program must take into consideration the needs of the medium-sized MBE, and thus extend beyond simplistic assessments of total sales figures; realistic, measurable and achievable program objectives with feasible time frames and funding sources. Evaluation vehicles directly tied to the growth and success rate of the target populations must be implemented; a more effective staffing system that would allow for increases in personnel and expertise available. Well qualified personnel and consulting services should be made available to the medium-sized minority supplier; timely service delivery.

(3) Carefully assess the current structure and capitalization of MESBIC's to determine their impact on minority business development.

(4) Implement regular and systematic vehicles to disseminate information of the full scope of programs and activities available to the minority business owner. Regular seminars focusing on legislative changes and private/public resources should be held in conjunction with these expanded outreach efforts. Furthermore, direct input from the local MBE community should be encouraged at the regional and district levels through advisory groups made up of MBE's representative of the ethnic/racial, trades and size businesses in the Chicago area.

(5) Develop effective relationships with the local banking community to generate much needed financial assistance for the MBE, and in particular, to meet the larger capital requirements of the minority supplier.

(6) Delineate and apply uniformly clear definitions of "minority business" and "small business." Current abuses in the use of resources by unqualified and front organizations must be stopped. This may require strong legislation that would eliminate existing loopholes in current regulations.

(7) Develop sound and productive business relationships with the private sector to create a climate more conduvice to increased minority purchasing.

(8) Investigate and allocate needed resources to solve the existing conditions that lead to the slower rate of growth of Chicago based MBE's.

## REFERENCES

(1) James Lowry and Associates, "A New Strategy for Minority Business Enterprise Development," Chicago, Illinois (1980).

(2) "Executive Summary Digest on Chicago MBE Mini Conference: A Discussion of Problems Issues, Future Government Roles and Program Recommendations," Office of Minority Business Enterprise, Chicago, Illinois (1978).

(3) "1972 Survey of Minority Owned Business Enterprise," U.S. Department of Commerce, Washington, D.C. (May 1975).

(4) "1977 Survey of Minority Owned Business Enterprise," U.S. Department of Commerce, Washington, D.C. (June 1980).

Mr. MITCHELL. Now we will be delighted to hear from you. We have a copy of your testimony which will be entered into the record in its entirety. If you so desire, you can speak merely to the salient, major points of your testimony.

## TESTIMONY OF JERRY T. JONES, CHAIRMAN PRO TEMPORE, THE CONCERNED 8(a) FIRMS OF REGION V

Mr. JERRY JONES. Thank you, Mr. Chairman. I will try to do that, Mr. Chairman.

Mr. MITCHELL. By the way, let me, too, thank you for all the help and assistance and counsel and guidance that you have given me for the years that I have been in Congress. I really am appreciative.

Mr. JERRY JONES. Thank you, sir.

Mr. SAVAGE. Mr. Chairman, if I may, as a point of personal privilege, I just want to recognize—I am not a bit surprised, since this business is a very strong member of the Second Congressional District of Illinois.

Mr. MITCHELL. Mr. Jones.

Mr. JERRY JONES. Thank you, Mr. Chairman.

Mr. Chairman and Mr. Savage and members of the staff, I appreciate this opportunity to appear before you today to discuss the section 8(a) business development program at the Small Business Administration.

And since you have been so nice, I don't want to take any time to talk about my credentials. But as you are aware, I have appeared before this committee before as chairman of the National Association of Black Manufacturers, and president of Sonicraft, Inc., an 8(a) firm.

Today I am one of the speakers representing the concerned 8(a) firms of region V. This group consists of about 75 of the 200 or more firms in region V that came together last year out of our concern about the proposed changes to the 8(a) business development program.

Mr. Chairman, I know that you and your committee are very much aware of the plight of minority businesses, so I won't take a lot of time. I have tried to make my presentation short, and deal only with the most important issues concerning the program.

Mr. Chairman, we question the intent of the changes proposed by the Small Business Administration to the regulations that appeared in the Federal Register on June 1, 1981. Upon analysis, the 3-year and 5-year maximum program participation time that will be imposed by the Administrator violates the intent of Public Law 96-481 and Public Law 95-507.

In passing the bills leading to Public Law 96-481, Congress did not intend to discard the business development goals of Public Law 95-507, but to restructure the 8(a) program so that obtaining those goals might be possible for more participants in the 8(a) program.

Congress explicitly rejected a uniform programwide maximum program participation time in favor of a case-by-case determination.

Congress intended SBA to develop criteria for graduation which would be valid indications of a firm's future performance outside the 8(a) program. These criteria were to focus on an individual firm's timetable for obtaining competitive viability.

The legislative history of Public Law 96-481 clearly indicates Congress continued commitment to Public Law 95-507's goal of promoting the competitive viability of minority businesses.

However, SBA's proposed regulations with limits on program participation, regardless of a firm's past record or prospects for future success in achieving competitive viability, appear to have replaced this goal with another. Instead of competitive viability, SBA appears to be saying that it can only help a limited number of firms for a limited amount of time, and that, therefore, competitive viability is irrelevant. We believe that this misreads congressional intent so seriously that it will effectively destroy the 8(a) program.

Mr. Chairman, you are aware of the fact that this has been the argument of the SBA for many years. We have known they said that we can't do it. And, in fact, when Mr. Carter came in, we challenged him to set a $1 billion goal. When he looked into it, he found we would do $3 billion. SBA achieved $1.6 billion in 8(a) program contracts in 1980.

So, this historically has been an issue, and it has always been something that said: Hey, we can't do more, we have to do less. But that has not ever been borne out by any real decisions or anything that could have been made.

SBA's proposed maximum limits of 3 to 5 years on program participation were apparently not selected because of any correlation between those numbers and any milestone in progress toward competitive viability. In deliberation on the bill, the Senate had considered and rejected a proposed programwide maximum limit on program participation.

The Senate report recognized that the necessary data base for determining an absolute fixed limit on program participation simply did not exist. Without such data, Congress determined that it was not competent to set graduation dates.

At the same time, it noted that SBA had not moved to collect the data which would make that agency any more competent to set absolute fixed periods for participation. Congress intended that SBA gather such data expeditiously. It has not done so. Yet, it is attempting to set absolute limits on participation on a programwide basis, exactly what Congress rejected. This flouting of congressional intent casts serious doubts upon the validity of SBA's proposed regulations.

We are concerned, Mr. Chairman, that the proposed regulations do not reflect instructions from Congress in the conference report on Public Law 96-481 as to what graduation criteria the implementing regulations should include.

In fact, the conference report states, and I quote:

> The implementing regulation should take into account the following factors among others: The amount of SBA assistance needed to correct impairment of 8(a) concerns, the individual characteristics of the 8(a) concern, the locale in which the firm conducts its business, the nature of the industry and the availability of private sector capital and procurement to assist the firm in achieving maturity in the American economic system.

SBA's proposed regulations ignore these facts in favor of absolute limits on any firm's participation in the program, and has a misdirected focus on the firm's past performance in the 8(a) program instead of the firm's impairment and projected future competitive viability. The proposed regulations discuss none of the congressionally mandated factors.

Based upon legal advice, we believe the proposed regulations ignore congressional intent to the extent they are illegal. Clearly Congress sought to insure that, and I quote from the conference report again:

> Flexibility exists within the agency to take into account the individual characteristics of the company, the locale in which the firm conducts its business, and the nature of the industry.

We are concerned that SBA's proposed regulations ignore the length of time required for a firm to become viable in favor of undocumented generalizations; for instance, the recent Report of the SBA Task Force on Venture and Equity Capital for Small Business. This report, which studied characteristics of new enterprises, found that most firms that become successful require 10 to 20 years to do so.

There are numerous findings that support the same conclusions. SBA's proposed regulations ignore the realities of Government procurement. A good performance record is one of the most important factors in contracting with the Government. The complex regulations make it difficult for a firm to learn all that is required to successfully perform on Government contracts quickly.

Because of the complexity of Government contracting, large firms are favored by the Government. For example, in 1980, the Department of Defense awarded 64 percent of its dollars to noncompetitive contracts. It takes several years for a firm to establish a good relationship with a procurement activity.

We are concerned, Mr. Chairman, about the arbitrary manner in which the changes to the program regulations are being made. On June 1, 1981, without prior notice, participants in the program were required to sign a document that suggests they must give up their legal rights of appeal in order to continue to participate in the program. Many firms were caught in the situation where, if they refused to sign the document, they would default on contracts or not perform on contracts that had been negotiated in good faith by the 8(a) firm and the procurement agencies. That is certainly not a way of getting a good track record, Mr. Chairman. But we are concerned about the coercive manner used.

We believe the requirement to give up rights of appeal will subject us to additional arbitrary treatment and is illegal, and the requirement violates the Administrative Procedures Act.

We are concerned that the SBA will publish final rules without holding administrative hearings on the proposed rule, and that these final rules would not be justified by data that they have received or data that is available to them.

We are also concerned that on June 18, 1981, the Administrator published a proposed rule that would abolish the present rule which places all authority regarding advance payments with SBA regional administrators. The proposed rule would transfer the authority of approving or denying advance payments to the SBA

Administrator who, in turn, may delegate it or any part of it to other SBA officials.

Mr. Chairman, I want to state that although that is a proposed rule, in fact we know that SBA is operating under it.

Again, 8(a) firms are negotiating on contracts and submitting documentation for advance payments only to find themselves the victim of another arbitrary act by the Administrator.

We want to emphasize, Mr. Chairman, that advance payments are available to all Federal contractors, large, small, and 8(a). Inordinate delays of such payments caused by approval at the central office renders 8(a) firms incapable of performing on contracts that they have already entered into with SBA and the procurement agencies.

We believe that the district and regional offices are closer and more knowledgeable of the firms and must administer the advance payments and should, therefore, have the final say on disbursement of advance payments.

We further emphasize that the inability to obtain advance payments would force 8(a) firms to finance contracts at prime rates plus points above prime, if they are able to get the loans at all. That will, in many cases, reduce the profit or eliminate the profit altogether.

In conclusion, the 8(a) program is the most important program existing that has the potential of developing significant minority-owned enterprises. The proposed changes make this program ineffective.

In proposing the changes, the SBA may have concern about the impact the program is having on nondisadvantaged firms. Yet, the General Accounting Office in its report that came out in May, entitled: The SBA 8(a) Procurement Program—A Promise Unfulfilled, states that big business is virtually unaffected by the 8(a) program. I quote from that document:

"Procurements from disadvantaged businesses are a very small part of total Federal purchasing * * *. Big business, which accounts for the majority of Federal procurement dollars, generally has not borne a proportionate share of giving up items or services for the 8(a) contracts * * *. Despite the weakness of SBA's procedures for avoiding adverse effect on other small firms," that is nonminority firms, "we did not find widespread injury caused by the 8(a) program."

If the reason for wanting to cut back on the 8(a) program is SBA's concern about the administrative cost or the lack of funds to administer the program, Mr. Chairman, we suggest that SBA adopt a multitier program where administrative assistance is provided in inverse proportions to the firm's capability and material.

Mr. Chairman, you know this is something we have been talking about for a number of years. The firms that have been in, may need more financial support, but in general they need less administrative support.

Mr. Chairman, it is almost unbelievable to us that at a time like this when the administration is indicating its intent to triple the defense budget and, at the same time, promoting an increase in competition by foreign firms through MOU's—memorandum of understanding—which is done mostly to offset the imbalance of trade caused by large American firms selling to foreign countries—efforts are proposed which decrease participation by minority firms.

The concerned 8(a) firms of region V believe the 8(a) program should be expanded and that the proposed rule should be withdrawn until administrative hearings are held and a more definitive rule is prepared.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you. As always, you have given us very definitive testimony and I don't have questions. I want to comment on several of the statements that you have made.

Oh; maybe 8 years ago the Congressional Black Caucus had a series of hearings on lawlessness in Government. The intent of those hearings was to demonstrate very clearly that the agencies of Government were consistently violating the laws as promulgated by the Congress.

There was some straightening up after those hearings but the agencies are falling back into their same old practices.

I say specifically with reference to the 8(a), to the SBA's criteria for graduation and the criteria for size standards, there was a specific mandate from the House Small Business Committee that before any such regulations could be implemented they had to be brought back to the Congress.

Now, the Administrator is going to argue that these are proposed regulations, but they are not. Once you get them out there it is almost as if they are being implemented. And that is an example of Government lawlessness.

In that vein, I am happy to report that six or eight of 8(a) firms filed suit in the U.S. District Court for the District of Columbia, the grounds being that the agency is acting in a lawless and capricious manner.

We have not gotten a ruling from the U.S. district court on that suit as yet, but I think if there is an unfavorable ruling at that level it has got to be appealed. We can't let agencies violate the law.

The second thing is that with reference to your TIA program which you and I and others have discussed for several years now, that has been submitted to the Secretary of Commerce and I think that is an effective way of handling some of SBA's problems and, indeed, the problem of graduation.

We have not—it is just at the preliminary stages, but after much discussion and much work it is now moved to that point.

I had one other comment to make. This is not so much for your benefit alone, but for the benefit of the entire audience. The regulations that came out on June 18, which you refer to in your testimony, the Administrator published a proposed rule that would abolish the present rule which places all authority regarding advance payment with SBA regional administrators. That is the proposed rule that came out on June 18.

As you know, when a rule is proposed by an agency it is put out for comment and the initial period of time was 30 days. The comment period was for up until July 18 to comment. We managed to get that extended so, instead of 30 days, it is 60 days, and I would urge all business persons in this room to get hold of those proposed regulations that came out from SBA on June 18, 1981, and to comply in terms of commenting as to the impact of those regulations, to do that within 30 days. OK. You only have 30 days left.

Thank you. I have no other questions.

Congressman Savage, would you take over for a moment, please?

Mr. SAVAGE. All right. Let me just say that the testimony was perfectly clear, Mr. Jones.

Mr. JONES. All right. Thank you very much.

Mr. SAVAGE. Is Mrs. Magdelea Dixon present?

If not, we will call on, for the next testimony, Mr. Mel Boldt, chairman of the Federal Committee of Independent Small Business Association of Illinois. Mr. Boldt.

## TESTIMONY OF MEL BOLDT, CHAIRMAN, FEDERAL COMMITTEE, INDEPENDENT SMALL BUSINESS ASSOCIATION OF ILLINOIS

Mr. BOLDT. Congressman Savage, thank you for inviting me to testify today.

Mr. SAVAGE. Mr. Boldt, before you start, do I have your testimony here?

Mr. BOLDT. Yes; you do.

Mr. SAVAGE. Here is what the problem is. We are in a time bind, as you can see, and we still have a substantial number to go. We don't want to cut out anything that really has to be said and that has not yet been said. But you are invited, if you wish, to put the written statement into the record and then just to speak on the highlights, the main points, if you wish, for the sake of time.

Mr. BOLDT. I would be glad to do that, sir, if you would accept it as submitted.

Mr. SAVAGE. No objection, the testimony, as submitted, is made a part of the record, Mr. Boldt.

Mr. BOLDT. The most important need of small business today and for the foreseeable future is capital. We have got to have more capital if we are to grow. The best way I know of providing this capital is through the enactment of the five capital formation recommendations coming out of the White House Conference on Small Business.

The first three of these recommendations are basically designed to let small businesses keep a little bit more of what they earn. We are looking to replace the present schedules with more graduated personal and individual rate schedules. We are looking for the adoption of a simplified capital cost recovery system, and perhaps some direct expensing of capital items.

The third item is to revise the estate tax laws so that the Government stops taxing small businesses out of existence upon the death of the founder.

Now, these three provisions are being considered right now by both the Senate Finance Committee and the House committee. Last Wednesday, the President in a response to a question from a small businessman from Utah indicated that he would no longer object to the revising of the corporate rate schedules and we have great hope, since this is included in Congressman Russo's bill, that this could be enacted in this session of the legislature.

As Joe Williams mentioned earlier, the need for capital is the key need and that would be the best way we could get it.

But even if these three provisions do pass in the tax bill, we need more capital than they will provide. The White House conference recommendations provided two other alternative ways of attracting capital to small business.

I kind of refer to these as making small business competitive with the tax shelters. Let small businesses, the job-producing small businesses compete with the nonproductive tax shelters for the capital that is out there.

These two provisions, the first is to provide a tax credit for the initial investment in a small business and to allow for the rollover of the investment in a small business.

The tax credit on the initial investment in a small business could certainly be tied into the free enterprise legislation that we have talked about. This would allow the local small business person, or the local fellow that wants to get into small business, a chance to get the capital he would need to go into these free enterprise zones so they don't become just big business enclaves.

The rollover of an investment in a small business would be a substitute for the present law today that allows a small businessman to sell out to a big corporation in exchange for stock and not pay the tax until he sells the stock. Well, what is happening is the successful small businesses as a result are all being bought up by the big companies because of the tax advantages.

We think that the strong small business community is very important to this country and to provide that, if you would allow a small businessman who sells his company for cash and then reinvests that cash in another small business, if you allow him to have the same tax advantages in that situation as he does in swapping his stock for a big company, I think we would see a much stronger small business community.

The final recommendation to the White House Conference on Capital Formation is the creation of the small business participating debenture. This would be a kind of a loan whereby the businessman would be charged a nominal rate of interest, say 6 percent, and in addition give the lender a participation in his future profits for a limited period of time. You would remain 100 percent owner of your company; you would pay a small interest, give a part of the profits.

The proposed legislation would allow the lender to treat that participation in profits as a capital gain, thereby reducing the tax effects on him of that receipt and allowing him to charge the small businessman a lower rate of interest on a total package.

This provision would do much to attract new, fresh capital to the small business community.

This basically is how Congress can help us get the capital we need. Why you should do it is another question and if I could just take a minute to address that.

Our Nation faces two very serious economic problems, unemployment and inflation. Small business is in a unique position to do something about both of these. The competitive nature of our businesses provides the low prices that will help with inflation. In addition, small buisness provides the innovation you need if you are going to affect inflation.

Small business has shown to be 24 times more effective for research and development dollars and innovation than the biggest companies.

Of course, the other problem we have is unemployment and you have heard testimony before today as to the effectiveness of small business in creating new jobs.

So in summary small business is not looking for a handout. What we are looking for is your help to do our part for the country. President Reagan is very fond of quoting Democratic Presidents. If I could just paraphrase one, one of the great ones: It is not what the country can do for small business, but what small business can do for our country.

Thank you.

Mr. **Savage**. Mr. Boldt, let me go back over those points, particularly the latter two. The fourth one, this tax credit on initial investment. How would that work?

Mr. **Boldt**. This would probably take the form of when the money was invested you would get a credit in that same year so that the net effect on your taxes would be that. If you took the money out of one investment and invested it here, you would end up not having to pay.

Mr. **Savage**. Someone goes into business and he has $10,000 in savings and he borrows another $30,000, has got $40,000, goes into business, you say you get tax credit on what, on that $40,000?

Mr. **Boldt**. If I were to come to you, a friend of mine, and say, "Hey, I am going into business, you have got some money, I have got a good idea, would you give me that? You are in a high tax bracket." Then your investment in my small business would provide a tax savings to you as an investor.

Mr. **Savage**. What about your own investment in it?

Mr. **Boldt**. I am not that familiar with the legislation.

Mr. **Savage**. The reason I am asking is I am wondering whether or not that process would really give the tax credit to people who don't really need it as much as the actual operator.

Mr. **Boldt**. The operator needs to get his hands on that capital. His tax problems will come up a couple of years down the road when he has got a good business going.

Mr. **Savage**. What I mean, though, is that it is a further reduction in taxes that could be a reduction for big business rather than small business. It is true that the benefit that the money ends up, but aren't we a bit bothered by—if you continue to reduce more and more the taxes of bigger and bigger businesses—taxes have to come from somewhere.

Someone before you was saying that you needed to make taxes fair for the small businesses. For instance, they complained about the 10-5-3 program. This seems to be skewed again for, even though it may benefit the tax formation of small businesses, the tying it to an additional tax credit when some small businesses——

Mr. **Boldt**. Most of that money would come from individual investors. Right now the doctors and the lawyers are taking their money and buying the tax shelters.

Mr. **Savage**. And you would prefer that to a program like the one we are trying to pursue here with regard to minority enterprise where rather than to give tax credits to the investors as providing Government guarantees and things of that kind.

For instance, in the development of equity capital and the loan guarantees and the direct loans and so forth, while those programs are working too inadequately, as testimony here has evidenced.

Yet is it possible that those programs could work better, not just for minority enterprises, incidentally, but small business in general, without this tax credit feature which could accrue to very big business.

Mr. **Boldt**. I think my answer is no; I think it would be much more efficient to let the market forces draw the capital to small business, if we were to give them the same advantages that the tax shelters that people are investing in today. If they had those same advantages, that same kind of a tax credit, just let that money flow to the fellow that has the good idea rather than building another Government structure to pass the money through.

If we are going to reduce the size of the Government, this is one way of doing it.

Mr. **Savage**. Now, would you quickly, before ending, review the first three points? Could you put it in different language, layman's language?

Mr. **Boldt**. Basically, presently, the President has suggested that the individual tax rates be reduced and we are strongly in favor of that.

Mr. **Savage**. Individual tax rates?

Mr. **Boldt**. Individual tax rates, because a very large percentage of small businesses——

Mr. **Savage**. Do you favor it as it is proposed? By that meaning where a person with a $100,000-a-year income ends up saving $13,000 in taxes and someone with a $20,000 income saves something like $1,300 or something like that?

Mr. **Boldt**. I think it has to be an across-the-board cut.

Mr. **Savage**. You favor the greater tax cuts for the wealthy; the wealthier you are the bigger your tax cut? You favor that?

Mr. **Boldt**. Yes.

Mr. **Savage**. And you represent the——

Mr. **Boldt**. Independent Business Association of Illinois.

Mr. **Savage**. Is that a group of small businesses?

Mr. **Boldt**. Yes, it is. It sure is. And we all hope to be rich. Not many of us are yet, but when we get there we would like to——

Mr. **Savage**. You don't propose saving those tax cuts until you get rich; you start right now?

OK.

Mr. **Boldt**. No. 2 is the graduation of the corporate rates, raising the maximum surtax. At the present time a corporation pays the maximum rate when it earns $100,000 of income. We think that should be—the White House Conference said that should be raised to $500,000. At the present time Congressman Russo has a bill in the Ways and MeansCommittee——

Mr. **Savage**. Again, that benefits more the larger businesses, doesn't it?

Mr. **Boldt**. Oh, no, no, no. The major corporations earn many, many times $200,000. In today's market, with inflation and costs the way they are, a paper profit of $200,000, so much of that is eaten up in receivables, so much of it might be—if my business were——

Mr. **SAVAGE**. We are not talking about paper profits. We are talking about actual profits now.

Mr. **BOLDT**. But so much of that actual profit has to go to just to maintain a level of business. With, say, 10-percent inflation, my inventory has to increase by 10 percent, my receivables will increase by 10 percent, the profit——

Mr. **SAVAGE**. What was the third point? What was the third one?

Mr. **BOLDT**. The third one was the—actually that was No. 1. The simplified capital recovery system, to simplify depreciation.

Mr. **SAVAGE**. That one, what is that?

Mr. **BOLDT**. Would be like the 10-5-3. One form of it.

Mr. **SAVAGE**. You favor the 10-5-3?

Mr. **BOLDT**. Personally, 10-5-3 would help me. My business happens to be——

Mr. **SAVAGE**. I don't mean personally. I mean in the capacity in which you are——

Mr. **BOLDT**. No; that would not help the small businesses as much as the direct expensing. Direct expensing would be much more beneficial a provision.

Mr. **SAVAGE**. Let me thank you very much.

Mr. **BOLDT**. Thank you.

Mr. **MITCHELL**. Our next witness is Mr. Edelen and I would ask if you could keep within a 10- to 12-minute time frame. I just ran a time count of our witnesses. There are about 11 more and we have got to be out of this building by 5. So I will ask for cooperation from you and all the other witnesses.

Mr. Edelen, your entire statement will be entered in the record.

## TESTIMONY OF JAMES H. EDELEN III, PRESIDENT, NIPSCO

Mr. **EDELEN**. I would like to first thank you gentlemen for taking time out of your busy schedules and for not forgetting us small business people.

My name is James Edelen, president of National Industrial Products Supply Co., and also North American Welding Supply. My testimony today basically centers around one word—procurement.

With the change of the affirmative action laws as they stand today and the addition of the one word—procurement—the problem of minority sources; I feel there are a temendous amount of markets that will open up.

The example I give is of the Alaskan Natural Gas Transportation Act of 1976, Public Law 94-586, section 15 of the U.S.C., section 719 where they adjusted the affirmative action laws to include procurement.

I have had personally a great deal of success in complying with this act and specific reference to the eastern leg of this pipeline system to transport natural gas from the slopes of Alaska to the mainland United States. The eastern leg is being built by Northern Border Pipeline Co., which in its efforts are to be commended on the outstanding job of affirmative action. They have taken a group of pipeline contractors which were traditionally very, very exclusive, and opened them up and made them very receptive to purchasing from minority-owned companies.

They did this because they had pressure from the Carter administration through the Office of Federal Inspectors. They had some definite goals. They had some definite criteria and things they had to come up with in order to build this pipeline.

In researching and asking, "Why did you do what you did," Northern Border's response was, "Because it is mandatory in the affirmative action plan that we procure from minority-owned companies."

If this was spread throughout all affirmative action plans we would open up various new markets such as pipeline, cross-country pipeline.

To give you an idea of that particular market, it is $46.8 billion worth of pipelines to be built between now and 1986. If we could get just a piece of that action as myself and some other minorities in this country have, we wouldn't have to have rules and regulations.

I also see it spreading into other industries. I, myself, and other minorities who do business have to have an affirmative action plan. I have to procure from minorities. I have to report my dollars. So, as you see, it is a snowballing effect. It has caused me to become more conscientious. It has caused me to utilize minority sources even more than I had in the past.

So at this point, seeing as how I have entered specifics in my testimony, I would like to thank you for your time and will answer any questions.

Mr. MITCHELL. We thank you.

For your benefit and the benefit of the audience, I just want to make a few comments, because so many people don't know what a long, hard struggle this has been to even reach this point where we are.

I shall never in my life forget what occurred on the Alaskan pipeline. That was a multibillion dollar project. Our contractors from the Pacific Northwest and from over the country went to the Alyeska Corp. saying "We want in." They went to Canada and Alyeska and said, "We don't need you, go back across the bridge, we don't want you."

After a long struggle we got in late and we got just some crumbs out of the Alaskan pipeline.

A number of us were determined that this would not happen with the gas line and it was in February that we met with Northern Border in my office. I had been in communication with the two principal companies involved saying we didn't want a repeat.

I was encouraged by what Northern Border committed itself to do and further encouraged by a later report from them which shows how an outfit, if it really wants to help, can help.

By way of illustration, there are only six companies that manufacture these great big pipes for the line, only six in the Nation, and none of them are black. And the Northern Border official said, "How can we get minorities in on this?" So what they did, they established a minority shipping site merely to handle the movement of that massive pipe. We couldn't manufacture the pipe, but they cut us in on the shipping aspect of it.

So I am very pleased to learn that it has been going well for you. I would hope that this will keep up. That is an enormous amount of potential money to come into our community, which can be brought in, and I thank you for your efforts and for your testimony today.

Congressman Savage.

Mr. **Savage**. Mr. Chairman, I have no questions.

Mr. **Mitchell**. Counsel just reminded me that Boeing Insurance Co., a minority firm, received a multimillion dollar contract through Northern Tier.

Mr. **Edelen**. Just astronomical. And I can say that there are other markets that can be opened. Through their help we were able to get financing from a totally all-white bank. It is just something I wanted to read into the record rather than a horror story.

Mr. **Mitchell**. And I am most appreciative. I like it when the companies come in and pledge good will and so forth. There is a minister in my city with whom I am very friendly and he always tells me the name of the game is "Get me the money, honey." And if the firms come in with the contracts, that means more to me than any great statements of declaration and I am very pleased with it.

Thank you very much.

Mr. **Edelen**. Thank you very much.

[Mr. Edelen's prepared statement with attachment follows:]

### Prepared Statement of James H. Edelen III, President, NIPSCO

I am James H. Edelen III. My business background lies primarily in Industrial Sales. After several years as an industrial salesperson, I opened by own company. My experience as president of a supply warehouse, National Industrial Products Supply Co., Inc. (NIPSCO), has been very enlightening over the past five years. I recently acquired a new company, North American Welding Supply Co., Inc. (NAWS), for the specific purpose of supplying pipeline contractors.

The National Industrial Products Supply Co., Inc. (NIPSCO) and the Illinois Corporation were incorporated in August, 1976 in Waukegan, Ill. to provide industrial supplies to industry. NIPSCO has six employees and 10,000 square feet of warehouse space and supplies welding supplies, safety equipment and material handling equipment.

NIPSCO has recently purchased the North American Welding Supply Co. (NAWS), and expanded its lines of supply. NAWS can supply all that NIPSCO does plus the equipment necessary in cross-country pipelines. NAWS's principal office is located at 1205 Belvidere Road, Waukegan, Illinois 60085, (312) 336-3830. A warehouse is located at 1201 Cherokee Street, Sioux Falls, South Dakota 57104.

The concept of NAWS is to move this warehouse into a city with good inbound transportation and as close to major cross-country pipelines as possible. This will enable NAWS to service our customers rapidly and efficiently.

There is a definite need to change and update the Affirmative Action Laws. Affirmative Action Plan means a statement of those Actions appropriate to overcome the effects of past or present practices, policies, or other barriers to national equal opportunity in employment.

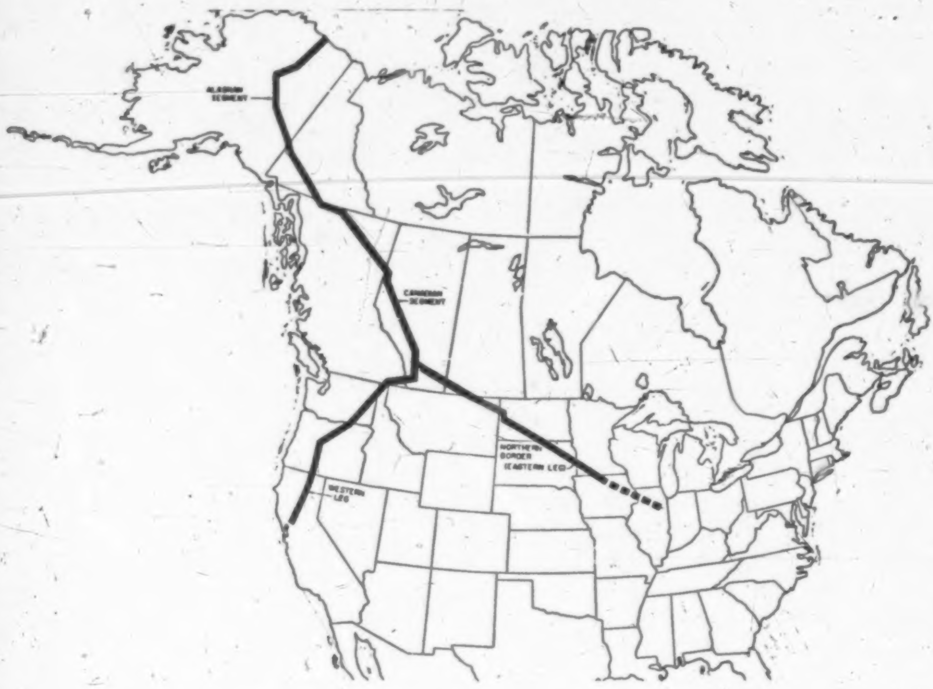
The Alaska Natural Gas Transportation Act (ANGTA) of 1976 (Public Law No. 94-586, 15 U.S.C., Sec. 719) has adjusted the affirmative action Law to include procurement from minority businesses, and the provision of Services, financial aid, or other benefits, and includes goals for achieving equal opportunity and a description of specific result-oriented procedures to which the company commits itself to apply a good faith effort in order to achieve the goals.

Procurement from a minority company should be part of the law in every industry, and require that they purchase from minorities.

The Carter Administration's conscientious effort opened the door to procurement from minority companies and is a factor in the Eastern leg of the Alaska Natural Gas Transportation System (ANGTS), now being constructed by the Northern Border Pipeline, changing the Affirmative Action Plan to include benefits not specified by the law.

Northern Border is a perfect example of the fact that ANGTA works. Northern Border has done an outstanding job with their Affirmative Action Plan and encouraged and helped pipeline contractors, who are traditionally very exclusive, make use of the Affirmative Action Plan and has found their response to buying from minority owned businesses very receptive. They anticipate 46.8 billion dollars of pipeline being built between now and 1986, which offers an opportunity of an enormous amount of business being made available to minority companies.

There should be a federal inspector whose job it is to monitor and even impose fines or use whatever means available, to insure that Industries use the affirmative action law as a basis for doing business. I contend that they will not only be helping a minority company, but they too will benefit.



Mr. **Mitchell**. Mr. Stanley Johnson, president of Columbia Rustproof? Is Mr. Johnson here, who has patiently waited with us?

Just before you give your testimony, how long have you been in business?

Mr. **Leroy Johnson**. Columbia Rustproof has been in the metal finishing business for approximately 35 years.

Mr. **Mitchell**. I thought it was a rather long period of time. I wasn't sure. Thank you. If you will proceed with your statement.

## TESTIMONY OF LEROY JOHNSON, VICE PRESIDENT, COLUMBIA RUSTPROOF, INC., ACCOMPANIED BY STANLEY JOHNSON, PRESIDENT

Mr. **Leroy Johnson**. My name is Leroy Johnson. I am vice president of Columbia Rustproof, Inc.

The president of this company, of Columbia Rustproof, has sadly reached the conclusion that there are Federal purchasing agencies and Federal contract monitoring agencies that are purposefully engaging in activity which can be classified as prejudicial and discriminatory in the way they award and monitor public and Federal contractors to prime and subprime contractors that will be revealed in this document.

These discriminatory practices are in direct contradiction to Federal rules and regulations governing this country's Federal acquisition policies as set forth in the armed services procurement regulations and manuals.

The president of this company also feels that it should be revealed that there are major prime contractors who are at this moment being awarded contracts, even though they are in direct contradiction to their own minority subcontracting programs, which permits them to engage in discriminatory and prejudicial practices, which excludes qualified minority vendors with vendor's certifications of approvals from competitively bidding on Federal contracts and awards awarded to their firms via the Federal procurement or buying agencies.

The president of this company has assigned me, the vice president of this company, the task of compiling this information which will confirm without doubt the discriminatory and prejudicial attitudes of the following subjects:

Certain Federal procurement agencies and their related defense contract administration services.

Certain prime and subprime contractors and their related approved stampers and metal fabricators.

For the purpose of the reader of this document, Columbia Rustproof, Inc., is a minority-owned and operated company that has been active in the metal finishing business for 35 years. Its owners' and employees' ethnic heritage is black or Afro American.

The management staff of this company has been asked by well-meaning Federal procurement representatives and well-meaning representatives from commerical industry to stop identifying this company as a minority company in its written correspondence to prime contractors in regards to their bidding process and minority subcontracting programs with the possibility that maybe the prime contractors will establish business ties with this company.

I informed the representatives representing the above concerns that the majority of employees working at this plant fought in World War II and the Korean conflict. When the president of this company went into the Army and I into the U.S. Air Force, with a tour of duty in Vietnam, we both served with the understanding that we were fighting for this country's democratic way of life and the prime and subprime contractors' interest in this country. And now, when minority vendors, including this company, ask major prime contractors for a fair and nondiscriminatory consideration in their purchasing policies involving minority vendors whose ethnic background happens to be black, Hispanic, American Indian, Eskimo, and Oriental, they reply by producing and using prejudicial and racial attitudes in direct contradiction to established commercial and Federal acquisition regulation barring such purchasing activities.

Columbia Rustproof, Inc., is possibly the only black owned and operated metal finishing company in this country. Its tank capacity and size makes her the largest black oxide facility in the country, be it minority or nonminority. How can they, the Federal Government and the major prime contractors and their stampers and fabricators justify their lack of efforts to establish competitive business ties with this company according to Federal regulation reflecting such business ties once a qualified minority vendor has been pointed out to these agencies or prime contractors, even though this company has those prime contractors vendor's certifications of approval to provide the type of service my company has to offer.

For 2 years this company has received aproximately negligible to none request to bid offer from the major prime contractors in question, nor any work orders, even though we are in their file as certified and capable of providing the necessary protective coating and finishings on their metal parts according to the military specification governing such applications.

I hope that the brief information contained in this introductory is sufficient to prepare the reader for the information that is contained within this document and that it will benefit those individuals and agencies that are sincere in their desire to correct the many injustices and discriminatory practices affecting minority vendors' attempts to secure subcontracts opportunities from major defense prime contractors.

Mr. MITCHELL. Thank you. Are you an 8(a) certified firm?

Mr. LEROY JOHNSON. No; we didn't feel it was necessary if the spirit of Public Law 95-507 was going to be implemented by certain prime contractors and certain purchasing agencies who were supposed to monitor the majority of contracts.

Mr. MITCHELL. Do you have any Federal contracts at all right now?

Mr. LEROY JOHNSON. We haven't had any since the company's inception.

Mr. MITCHELL. All right. I am going to request that you send to me the names of those prime contractors that you can clearly identify as violating or thwarting the intent of Public Law 95-507. I would also request that you send to me the names of those Federal procurement agencies with whom you have been dealing, only those that you feel have deliberately attempted to subvert the intent of Public Law 95-507. Can you send that information to me?

Mr. LEROY JOHNSON. Yes; that information is available right now.

Mr. MITCHELL. If you could give it to our staff person right now, Major Clark, the names of those prime contractors and the names of the Federal procurement agencies.

It is my understanding that those primes do have contracts at the present time.

Mr. LEROY JOHNSON. Yes; they do. This complaint was registered with certain Federal agencies in the year of 1980.

Mr. MITCHELL. What agency did you register with?

Mr. LEROY JOHNSON. In a letter dated April 14, 1980, a letter was sent to Mr. Lloyd C. Alderman, Department of Defense, Coorindator Headquarter Defense Logistic Agency concerning whether or not certain prime contractors had effective and active minority subcontracting programs that included qualified minority business in their minority subcontracting programs.

Mr. **Mitchell**. Before you leave, if we can, we are going to try to get a copy of that letter made and I would also ask that that other information be provided.

One last question. Who was the person who recommended that you not identify yourself as a minority firm?

You can supply that to us later if you so desire.

Mr. **Leroy Johnson**. I can supply the names of the individuals, but not at this time. I can report that these individuals were the representatives of the Defense Contract Administration Service Region. Also individuals from the Rock Island Purchasing Arsenal which is housed by the U.S. Army Headquarters Materiel Readiness Command and was where another Federal procurement agency representative also suggested that implementation of Public Law 95-507 could not be implemented, that there were no guidelines or that the law wasn't effective and that there was nothing they could do.

It also brought to my attention that although we were lodging formal complaints, that if I were to think that the Federal Government was going to hold up a contract because of noncompliance of a prime contract that I was sadly mistaken.

Mr. **Mitchell**. It is important, I believe, that we follow through on this immediately. And we shall.

Congressman Savage, any questions?

Mr. **Savage**. Yes. I would like to ask what is your name again?

Mr. **Leroy Johnson**. Leroy Johnson.

Mr. **Savage**. Well, Mr. Johnson, why did they doubt your minority status?

Mr. **Leroy Johnson**. Our minority status was never doubted, nor our capabilities to provide the services.

Mr. **Savage**. I thought you said that someone here said that you should not present yourself as a minority.

Mr. **Mitchell**. Weren't they saying to you indirectly that you would do better off if you were not identified as a minority?

Mr. **Leroy Johnson**. Yes; they were. Yes; they were.

Mr. **Savage**. Oh, I see. There is no question about you being a minority contractor.

Mr. **Leroy Johnson**. Right. No question.

A lot of the private contractors we contracted with was based on information supplied from Defense Contract Administration Service and the arsenal. Then the purchasing agencies. We got the name of all the other primes to contact.

Mr. **Savage**. One other minor question. You had said earlier you are not an 8(a) certified firm. But here you say something that confused me. Even though we are in their file as certified. What do you mean by that? Certified, what do you mean?

Mr. **Leroy Johnson**. In other words, in order for any Government part to be in any plant, once the contractor receives a contract to fabricate an item, there are certain Government specifications that each subcontractor and the prime must meet, right up to and including the finished part. In other words, if I did not have a certification from the Boeing Co., the Sunstrand, the Northrop Corp.——

Mr. SAVAGE. Certification to what effect?

Mr. LEROY JOHNSON. To have their parts in my shop to finish.

Mr. SAVAGE. Oh, I see.

Mr. LEROY JOHNSON. In other words, I must have a quality control procedure, I must have an inspection procedure to govern their parts once they are inside my shop. And I must provide certifications. These certifications we have and these certifications are on file at the purchasing agencies. And the majority of prime contractors, and we have contacted over 200 of them in this country, refused to accept us or to establish or include us in their minority subcontracting programs, although millions of dollars are spent in the finishing aspects of those contracts.

Mr. MITCHELL. All of the testimony has been good and important, but I am going to recommend to the House Small Business Committee, certainly the subcommittee, that we take your case, just yours, and follow it through from top to bottom because I think here you have got a classic, flagrant illustration of just freezing a minority firm out of any kind of business.

We will take this original information from you today, but we are going to be back and forth with you. I would like to see the whole weight of the subcommittee brought to bear to look at this issue from beginning to where we are right now. And that would require really assigning maybe one or two investigators to your case.

Yes?

Mr. STANLEY JOHNSON. My name is Stanley Johnson and I am the president of Columbia Rustproof. For instance, we are approved to do Boeings parts. OK. In doing Boeing aircraft parts on the airplane engines the type of finish that we process on spare parts for the airplane engines has to be done in black. It is color-coded so when the engine wears it will wear the metal from black to gray. They will change the part. That is an industrial specification and also it is a DOD specification. These things must be done.

Now, we have vendor certification of approval for Boeing which have never given——

Mr. MITCHELL. You have gotten no contracts from Boeing?

Mr. STANLEY JOHNSON. Nothing. Sunstrand——

Mr. MITCHELL. Have you ever gotten a contract from Sunstrand?

Mr. STANLEY JOHNSON. They gave us 100 dollars' worth of work last year. But they sent a thing this year saying we are above average in the type of finishes that we do. And the response——

Mr. MITCHELL. What do you do with 100 dollars' worth of work?

Mr. STANLEY JOHNSON. I can't do anything with it.

Also Northrop, we are one of Northrop's approved vendors to finish the metals on the fighter planes.

Mr. MITCHELL. Any contracts?

Mr. STANLEY JOHNSON. Nothing.

Also Bendix, we are approved to do Bendix parts. We have never got anything from Bendix.

General Motors, we are approved to do General Motors parts. We have never gotten anything from General Motors.

We are approved to do Ford's. Never got anything from Ford.

We got a letter here from the Department of the Army asking us to contact several prime contractors that make the fuses in the bombs and the component parts. Since 1979, they directed us to get in contact with companies like Honeywell, Westclox, Bulova, Hamilton. In the Prime Contractor monthly, some of these companies got last month 5 or 10 million dollars' worth of contracts.

We have it documented. All of these things that are documented are certified letters that we sent with them. We have it documented. Over 300 companies that we have notified through certified letters. So that we could have an opportunity to be in on some of the finishes.

Say, for instance, like all the ammunition. The ammunition has to have the finish that we provide because it has a rust-inhibiting quality that ammunition has to be put up for long periods of time.

Mr. MITCHELL. Let me just stop you for a moment. I just conferred with minority counsel. I think this ought to be a bipartisan effort on the part of both Republicans and Democrats on this committee to make this a classic test case, and he indicated it looks good on his end.

One last question from me. You have been pursuing all of these leads, following through; do you have any idea what the cost for you has been in terms of dollars and man-hours, just to play the followthrough game?

Mr. STANLEY JOHNSON. Well, since 1979, 1978, I went to about 15 Federal procurement conferences all over the country. OK. All those 15 Federal procurement conferences that Congressmen give, Senators give, not from one of them, have I received any contract or anything.

Mr. MITCHELL. And SBA?

Mr. STANLEY JOHNSON. SBA, same thing. Here it is where SBA sent us notification the other day where they have us in their pass system—we have been in the pass system for I don't know how long with all of the information about us, and to date they haven't done anything.

Mr. MITCHELL. OK.

Mr. LEROY JOHNSON. One further point I want to add, Mr. Chairman, the fact that all the monitoring agencies, U.S. Department of Commerce, have been made aware of this complaint and up to this date no followup of anything; none. Negligible.

Mr. MITCHELL. Thank you. Certainly by next week I would hope to assign at least one investigator to work with you so we can get this full story. My first impression is that this is just horrendous.

Thanks. We will try to help.

Mr. LEROY JOHNSON. Well, to me, it hurts me in the sense that to find Federal purchasing agencies that refuse to get in compliance with Public Law 95-507 or their own defense acquisition regulations.

Mr. MITCHELL. Yes; that compounds the felony. You have got two sets of rules that they ought to be complying with.

Thank you very much.

Ms. Margaret Neal; you have waited very patiently all day for us and we are very appreciative.

## TESTIMONY OF MARGARET NEAL, E. G. CARPENTER & CO., INC.

Ms. NEAL. To members of the Committee on Small Business, its chairman, Representative Mitchell, today's host, Representative Savage, E. G. Carpenter & Co. is a management consultant firm whose primary business is providing certain management services to the minority business community. We have been in operation for over 9 years and over the past 3 years alone have served in excess of 300 firms.

We would like to make a recommendation that based upon our experience would serve to strengthen the small and minority business community. Our experience has shown that some loans are made to minority firms having insufficient experience in the marketplace and/or a lack of management controls in house.

When this is the case, we feel that certain services should be mandatory for these firms. The services that we have in mind are management consultant services which should be provided before the proceeds of the loan have been disbursed and should be ongoing to those firms in need of it until such time as these firms can show certain capabilities.

Inherent in this recommendation is a concern with proper management on financial controls being in place. The firm should be analyzed in its entirety, including but not limited to its management practices and staffing, its accounting financial controls, which are crucial, its production and quality of its product and/or service, and its marketing advertising.

The above lists some of the areas that need to be covered before funds are disbursed.

Likewise, whenever an SBA contract is let the same procedure listed above should apply.

Planning and budgeting must begin to occur before the contract is let, especially in those instances where a firm is going from a smaller dollar amount in sales to a much larger dollar amount over a short period of time.

These recommendations are being made to help eliminate the rate of failures that occur within the small and minority business community.

Mr. MITCHELL. You are talking just about consulting firms now?

Ms. NEAL. Well, underneath the heading of consulting would fall different categories; for example, we utilize a cadre of subcontractors and CPA's in the accounting area, architect/engineers and so forth.

Mr. MITCHELL. Well, your recommendations sound perfectly fine to me but they give me some trouble also.

Ms. NEAL. Right.

Mr. MITCHELL. Isn't this a standard operating procedure?

Ms. NEAL. Not necessarily.

Mr. MITCHELL. Is anyone from SBA here? Oh, yes, Mr. Smith. Could you respond to this?

Ms. Neal's recommendation is that no firm should be awarded a contract unless at least these minimum things are done: Management practices and staffing are looked at, accounting and financial controls are looked at, production and quality of product/service is looked at, and marketing and advertising.

Mr. **Smith**. That is all done, Mr. Chairman, as part of the preaward.

Mr. **Mitchell**. That is what I assumed.

Mr. **Smith**. Because if we don't look at it, the procuring agency looks at it.

Ms. **Neal**. Sir, it has been our experience with the firms that we are working with—we go into a company and we find that the firms are not up to par in terms of the management practices. One of the biggest problems that we encounter is in the accounting/financial areas, just a total lack of control, especially in that area.

It has been our experience to find that companies have received some financing without, we feel, the proper controls being in place before those funds have been disbursed.

Mr. **Mitchell**. OK. Then what we need to do is slightly reword your recommendations to read somewhere along this line: That a firmer, a more tight analysis be made in terms of these four areas of concern, and others that are important. Because I don't want it to appear—I wouldn't want the record to show that SBA has not even looked at a firm in terms of the quality of the product that it can produce because I have firsthand knowledge that it has. So if we could amend your testimony to merely indicate there ought to be a tightening up of this whole review of prospective firms, I think that would be acceptable.

Congressman Savage?

Mr. **Savage**. Yes; just a couple of brief questions. May I ask you how long has E. G. Carpenter & Co., been in business?

Ms. **Neal**. Nine years.

Mr. **Savage**. What was your background prior to that or now?

Ms. **Neal**. Banking.

Mr. **Savage**. You were in banking?

Ms. **Neal**. Yes.

Mr. **Savage**. For how long were you in banking prior to this?

Ms. **Neal**. Five and one-half years?

Mr. **Savage**. In the commercial department?

Ms. **Neal**. Commercial.

Mr. **Savage**. May I ask the bank?

Ms. **Neal**. First National.

Mr. **Savage**. Thank you.

Mr. **Mitchell**. Thank you very much.

It appears, ladies and gentlemen, we are going to make our timetable thanks to the cooperation of the witnesses. We have 55 minutes before we are put out of this room.

Mr. David O'Neil, the executive director for Chatham Business Association. Thank you for waiting so patiently.

We would appreciate it if you would try to limit your testimony to not more than 10 minutes.

## TESTIMONY OF DAVID O'NEIL, EXECUTIVE DIRECTOR, CHATHAM BUSINESS ASSOCIATION

Mr. **O'Neil**. Gentlemen of the U.S. House of Representatives and concerned business people that are present today: My name is David O'Neil. I am the director of the Chatham Business Association.

The Chatham Business Association is a not-for-profit organization representing some 508 businesses located in and around 79th Street and Cottage Grove Avenue, which has been permitted to comment on the prospects for small and minority businesses in the decade of the 1980's.

To understand the future prospects of small and minority businesses require some discussion of the current role and importance of this segment of our society relative to the public welfare and national economy.

There are about 12 million small business operations in the United States, constituting 97 percent of all American businesses. These small businesses accounted for roughly 90 percent of the new jobs, created in the national economy, between 1969 through 1976. A period that included two recessions. Smaller companies with fewer than 20 employees provided two-thirds of all new jobs created in the 1969–76 period. Equally, if not more astounding, is the fact that small businesses have demonstrated an enormous productive capacity in accounting for roughly 40 percent of the gross national product in the 1969 through 1976 period.

The supply-side impact of small businesses in terms of job-creating and output capacities is attributable to their innovative ability to satisfy, and in some cases create, demands in the most traditional American ways. Collectively, small business constitutes the core of our free enterprise heritage, it is our heritage and national spirit which encourages free people to pursue their individual self-interest, always subject to the well-being and general welfare of the public.

The impact and social utility of minority-owned firms becomes magnified when taken in the context of the plight of our inner cities.

Our cities represent more than just centers of jobs, communications, and commerce. They are centers for learning, for housing of most of our population, and social services. Indeed, our cities reflect our national character and serve to Bellwether the Nation's economic health and security. Our cities are an important national resource, representing a massive amount of economic, social, and physical investment.

Regardless of any particular slant or catagorization of public issues, the status of our minorities will continue to loom as a major national concern and priority in the 1980's. Few, if any of us can justify moving away from the issues of our cities. There is strong evidence of an alarming growth of an alienated underclass of Americans. Society cannot afford to ignore their existence and must focus on this problem for the indefinite future.

One hesitates to comment about the prospects for blacks and other minorities in the 1980's for fear of sounding either provocative or complacent. It can be argued that the forces which have been put into play are strong and durable enough to move minorities into the mainstream of American life and to satisfy the national mandate for equality and progress within a reasonable span of time.

Perhaps statistics on housing, jobs, income, and education point every which way, depending on one's sentiment. Yet there are good reasons to believe that our country will have to make another, very special effort to help minorities during this decade. This may be triggered by another surge of black protest, by a political judgment about the importance of minority votes, or by the simple understanding that it is not in the national interest to have a situation wherein so many Americans feel profoundly alienated from the dominant culture. Recent study and opinion polls strongly suggest that minorities, particularly blacks and hispanics, feel let out of society.

On a practical level, as society grapples with problems of inflation, unemployment, growth, energy, the balance of payments, and other public issues, all of our national resources, including our urban centers, which represent tremendous economic, physical, and social investments, and our urban population, many of whom are classified as disadvantaged minorities, must be employed for the maximum economic return.

Therefore, special emphasis should be focused on increasing capital formation in, and productive output of our urban centers. All things equal, assuming minority businesses share the same characteristics attributable to small businesses in general, minority firms have the potential for great contributions to the national priority of increased capital formation and productivity.

However, in accepting this premise, it must also be assumed that minority business firms share the same problems and concerns of all small businesses. In fact, many business practictioners, including myself, believe that the eighties will be especially rough on minority enterpreneurs.

Looking at the balance of the decade, we who represent the interests of the Chatham business community share the concerns that were indicated by most small businesses in general. The most imposing concerns from the minority business perspective encompass problems of: No. 1, inadequate public and private sources of debt and equity financing; No. 2, uncertainty about the direction, scope and effectiveness of the Reagan-style minority economic development policies.

It is disturbing that Washington has not yet formulated any policies or an approach for promoting minority economic development.

No. 3, adverse economic fallout resulting from tight monetary and fiscal policies which have and will continue to impact on the cost of capital and procurement opportunities.

No. 4, contraction of private sector participation in minority economic development as big business turns its energy toward coping with greater pressures for profits, market share, and control of costs.

No. 5, attainment and maintenance of acceptable levels of job opportunities in urban communities which offer concrete prospects of upward mobility potential.

No. 6, funding and maintenance of technical and vocational training programs in labor.

No. 7, inadequate provisions of public services and capital development projects in minority and depressed urban communities.

Relative to the aforementioned concerns, the broad consensus is that minority businesses are in need of continued and even greater support from both public and private sectors. Without commenting on specific strategies and policies which either now are in place or under study, we see the focus of minority economic development into the indefinite future as follows:

One: An increased level of cooperation within the existing partnership of Government, private sector interests, and minority firms relative to minority business attaining a broader acceptance of its goods to services.

Two: Increased capacity and product diversification of minority business firms.

Three: Establishment of priority areas for technical and management assistance and concerted action.

In light of economic and social forces that are presently or expected to impact on minority economic development, it is clear that minority business people must reaffirm their commitment and desire to compete in the marketplace.

The minority business person must and I believe will, find ample opportunity to capitalize upon the increased competition and scope of challenges that we must all meet.

The minority business person must continue to provide quality products and services that offer maximum market penetration. These businesses must price their products and services competitively. We must gain a better understanding of the dynamics of the marketplace and must learn to motivate employees to upgrade their skills by offering competitive wages, working conditions, and career paths.

Minority ownership must demonstrate a greater appreciation for the importance of capital formation by retaining more profits in their business and increasing the rate of personal savings.

However, regardless of the extent and dedication that minority businesses invest into marshaling their resources, the ultimate success of minority economic development is very much dependent upon the cooperation between the public, private, and minority business sectors.

Just as business, in general, cannot afford to ignore society's concerns, nor can minority business be expected to operate in isolation.

Certainly all segments of our society have a direct stake in assuring that minority business participates fully in our system of free enterprise. As people assume more risk and responsibility, their support for our democratic form of government increases correspondingly. Then it follows logically that the more our minority business community focuses on competing successfully, the better the prospects for real economic growth.

Given our national character, the responsible and capable leadership that exists in our private and public sectors and what I perceive as a new and fortified resolve on the part of minority business people to become full participants to our free enterprise process, I am guardedly optimistic about the future prospects for our economy in the 1980's.

I am confident that the partnership of the American people, which is reflected by the composition of diverse backgrounds present in this room will insure the preservation of free enterprise at its finest.

Mr. MITCHELL. Thank you very much.

I am a little disturbed by what appears to be some contradictions in your testimony.

Mr. O'NEIL. Where is that, sir?

Mr. MITCHELL. I am coming to it now.

On page 5 you refer to the contraction of efforts on the part of the private sector in participation with minority businesses. Recommendation No. 4. You address—looking at the balance of the decade—on page 4—we who represent the interests of Chatham's business community share those concerns * * *. The most imposing concerns from the minority business perspective encompass problems of one, two—and then you go over to page 5 and get to No. four—Contraction of private sector participation in minority economic development as big business turns its energy toward coping with greater pressures for profits, market share, and control of costs.

Now, that is a flat, definitive statement saying that from your perspective big business is turning away from minority participation; is that correct?

Mr. O'NEIL. That's correct.

Mr. MITCHELL. And yet on page 6 you indicate, the last paragraph—The minority entrepreneur must, and I believe will, find ample opportunity to capitalize upon the increased competition and scope of challenges that we must all meet.

Well, how are we going to capitalize further opportunities for competition in the private sector if what you are saying on page 5 is true?

Mr. O'NEIL. Let me make sure I follow you. That was question 4 on page 5 and on page 6 you were now, sir?

Mr. MITCHELL. At the last paragraph. The last sentence—The minority entrepreneur must, and I believe will, find ample opportunity to capitalize upon the increased competition and scope of challenges that we must all meet.

If that is applying to the private sector, how in the world can we do that if you have evidence—I assume that you do—of the private sector contracting its cooperation with minority economic development.

Mr. O'NEIL. Well, first of all, I think my particular question—you are right, it is confusing and it is contradictory. But I was thinking more in terms that the larger businesses are lowering their prices where the small businessman can't really make a profit. He is more in tune with really getting into his cash flow.

Mr. MITCHELL. Oh. I thought you were referring to the kind of thing that we just heard from Columbia Rustproof. They have gone down the list and they made the effort and nobody gives them a break.

Mr. O'NEIL. No, no; I am not. See, mainly because I am a representative of an association and, in fact, some of my members have spoken in front of the committee this morning. Seaway National Bank, Independence National Bank, Johnson Products. We have large corporations and also small businesses such as barber shops and resale shops and what have you. But I am representing all types of businesses from the smallest to the large. And this was a poll that I took personally myself along with the Chicago State University and also the University of Illinois.

Mr. **Mitchell**. Am I reading this last sentence on page 6 correctly in light of what you just said that in order for the minority entrepreneur to "find ample opportunity to capitalize upon the increased competition," are you talking about differentials in price that you just mentioned, that we have got to lower our prices?

Mr. **O'Neil**. Yes.

Mr. **Mitchell**. And what else?

Mr. **O'Neil**. And also make our shops competitive and our areas increasingly more beautified where people will come in and shop instead of going to the major shopping areas such as State Street or out to one of the plazas in the area or what have you, and keep the money within the community.

Mr. **Mitchell**. The last part I agree on. In fact, in principle, I agree on all three. But I would ask you a question. I have got an outfit called the Ethical Pharmaceutical Co. in my congressional district. How in the world can that company, which is a small company, compete pricewise with the giant pharmaceutical companies?

Mr. **O'Neil**. Well, it really can't. But in order to be able to supply the people of the community you have to entice people to want to come to your business.

Mr. **Mitchell**. Oh, the beautification, I agree with.

Mr. **O'Neil**. Not only beautification, but be able to have some type of marketing service to make people come to your business.

Mr. **Mitchell**. OK. Congressman Savage?

Mr. **Savage**. I just wish to say I am familiar with this association and the way it has placed the problems of small business into the proper social context exhibits an understanding that I think is commendable, particularly on the part of an association of small businesses.

Mr. **O'Neil**. Thank you. It is one of our jobs to get the public and private and community resources together.

Thank you for having us here today.

Mr. **Mitchell**. Let me also thank our next witness, Mr. Ron Brown, for being here and for being patient. Mr. Brown, are you still with us?

## TESTIMONY OF RON BROWN, VICE PRESIDENT, HARRISON STREET BUSINESS ASSOCIATION, OAK PARK, ILL.

Mr. **Brown**. Congressman Mitchell, Congressman Savage, I would like to express my appreciation for being invited as a representative of Harrison Street neighborhood organization of Oak Park and I would like to, for the record, enter a letter that was written by our village president, Mrs. Sara G. Bode, in support of my testimony.

Mr. **Mitchell**. Without objection, it will be submitted for the record.

[Letter referred to above follows:]

Oak Park, *July 15, 1981.*

Hon. Parren J. Mitchell,
*Chairman, House Small Business Committee,*
*Washington, D.C.*

Dear Congressman Mitchell: The purpose of this letter is to express our support of Mr. Ron Brown's testimony before the Small Business Subcommittee.

Economic Development is a priority in Oak Park: in fact, this stance was formally adopted as a Village policy by the current, and previous, President and Board of Trustees. To that end, we have developed a low-interest commercial rehabilitation loan program in conjunction with the Oak Park Development Corporation and our local lending institutions. This program has had a dramatic effect in terms of upgrading our aging and obsolete commercial stock.

However, due to FSLIC and FDIC regulations, the program cannot meet those needs stated by Mr. Brown, i.e., we are precluded from offering assistance for inventory, equipment, and salaries.

I would stress that, we at the local level, are doing our part. We ask that you contribute as well by making funds readily available to the small businessperson to meet their specific requirements.

Sincerely,

SARA G. BODE, *President*.

Mr. BROWN. Thank you, sir. I would also like to say that my testimony for Harrison Street neighborhood organization reflects the concerns that the village has, but I will also be testifying as a private person in business in the village of Oak Park.

First, I will read the statement from the Harrison Street neighborhood organization.

The Harrison Street Business Association is comprised of a group of small businessmen who have come together to accomplish two basic goals. One is to provide services and goods to a community that does not have them available within walking distance. The second is to take advantage of a statistical report that was done by a group of private consultants sponsored by the village through the community development block grant funds.

That report indicates that the population and income levels in the Harrison Street area are more than adequate to support commercial business on Harrison Street.

Question: Is this happening? The answer to that question is no. Why is it not happening?

We have begun an attempt to meet the needs in the Harrison Street area but to this point have been unsuccessful. We know we have been unsuccessful because our community does not patronize us.

Why doesn't our community patronize us? Because they cannot shop for the majority of their needs in one stop on Harrison Street.

Obviously Harrison Street needs more businesses offering a wider variety of goods and services. Some of the present businesses need to be expanded to include a fuller line of like products. And that means if a guy has a clothing store and he can only offer pants and jackets, the person shopping doesn't have a place to go and get shorts and so forth and so on.

Why is this not being done? We don't have any money. The small business person, especially if he is a homeowner and has a family, is extremely hard-pressed to maintain his working capital. And any consideration of new investment under these circumstances is simply out of the question.

Therefore, his only alternative is to find new moneys to expand present goods and services and create new goods and services that will encourage his neighborhood residents to shop in his area.

That new money and its sources are the subject of my testimony. Commercial loans at the present interest rate can only be afforded by big business or small businesses that don't need them. In order to apply for a Small Business Administration loan you must have been turned down for a regular commercial loan by at least three banks. This puts the business person out in the street getting turned down for loans instead of minding his store.

In our village, bankers will generally tell you that they don't want SBA business because it takes up a lot of time and doesn't generate enough dollars to make them profitable.

What is left for us is the community development block grant and the commercial redevelopment funds available under the HUD regulations. In our village that money is used strictly to help building owners to fix up and remodel commercial properties which subsequently causes them to raise rents.

However, there is no relief for the small business person who needs working capital to expand and develop products and services to a point that will at least allow him to compete with stores and shops 4 miles away where his neighborhood customer is now going to shop.

That culminates my testimony on behalf of the Harrison Street neighborhood organization. Now I would like to speak a little bit to the private business owner on Harrison Street. Harrison Street goes from the beginning of Oak Park at Austin Boulevard to Harlem Avenue.

Mr. MITCHELL. How many blocks is that? What size district are we talking about?

Mr. BROWN. I would say about 3 miles. I don't know the size exactly.

Mr. SAVAGE. It would be about 24 blocks.

Mr. MITCHELL. OK.

Mr. BROWN. The report that I refer to in the first paragraph was paid for through the community block grant to the tune of something like $20,000 or $30,000. There was also something like $190,000—I am asking not to be quoted on these figures, but I am close—of development work done on the street: tore it up, redecorated it, put trees and sidewalks and all that kind of stuff. This encouraged me and other businessmen to come into the area because the rents were cheap and the prospectives for success were looking real good.

After we got in there we found out—at least it looks this way—that Oak Park doesn't have any money for small black businessmen. However, there is a white businessman, who came to Oak Park and opened a grocery store that lives somewhere down in North Chicago and has a grocery store, in the black community on Cicero Avenue, that was able to get a small business loan and open up a huge grocery store on Harrison Street, and he is one of our members. But, for some reason, black businessmen, and I can think of two right offhand, have folded after being in business for more than 1 year on Harrison Street, because the potential for financial assistance in that area is just not there.

My own personal problem is we do not have anywhere to go right now. You can see by Mrs. Bode's letter she feels that the village has done their part, and they have done their job in terms of assisting small businessmen, but I can tell you as I sit here right now that there are at least two or three black businessmen on that street that are operating totally out of their pockets. If things don't change pretty soon, then they will have to fold.

My prediction for that area in the next 5 years is that that whole street, that whole 3-mile area, will have been redone in terms of revitalization, trees, bricks, and all that, and the people who own those properties that can get those loans from the community development block grant to refurbish those buildings will then go and get those loans after the black people have folded. And people who have money will come in there and take over the street.

Mr. MITCHELL. I am going to have to defer to Congressman Savage because I—for example, in my city we have floated some industrial development bonds and from those we have made a pot of local money that is made available not just to minority businesses or black businesses but to small businesses in general.

By way of illustration, we have a street which is known as Baltimore Street where all the shops were just run down. We have embarked on a program of making city loans to people who go into that area to develop business and we have also embarked on a program where a person can come in and buy that abandoned business site for $1, then makes a loan to make some improvements on it, and then also makes a further loan for capitalization through a city project. Is there any such comparable thing in Chicago?

Mr. SAVAGE. Let me ask first. Is that part of the Seventh District or is that some other congressional district?

Mr. BROWN. That's Henry Hyde.

Mr. MITCHELL. Congressman Hyde's District.

Mr. SAVAGE. The problem, however, Mr. Brown, the community development grant is limited to just what is apparently being done here, to the physical improvement. I understand the problem you have. You point out that many of the businesses don't own the property so they don't benefit directly, and what you need, you say, is money to expand and develop products and services, right, so that you increase the variety of products and all that; right?

Mr. BROWN. The community development block grant moneys that come to Oak Park, the decisions that are made regarding the use of that money are made by the—the people in the village make those decisions.

In other words, if the village wanted to, the village could say here we have some people who are operating some failing businesses because they don't have enough capital, people who have been in business 2, 3, 4 years, people who own homes.

Mr. SAVAGE. What I am saying, Mr. Brown, is how that is handled is a matter for Oak Park.

Mr. BROWN. I realize that.

Mr. SAVAGE. With regard to the community grants. In fact, you may know that there are those of us in Congress who oppose turning more categorical grants into block grants because of that very problem who want to specify to the local governments that funds be used for certain purposes. But that is not the case here.

This is not a forum for complaint about the community of Oak Park.

Mr. BROWN. I agree.

Mr. SAVAGE. That is for the city council of Oak Park.

You raised a question, however, about the need for capital to expand and develop products and services. Now, that is not the community grant program but, instead, there are only two areas. One is the Economic Development Administration which, as you know, is about to be phased out almost by the Reagan budget cuts, and the Small Business Administration, the congressional committee for which is where you are now sitting.

But up here earlier, you say they don't want SBA business. Well, that is one of the problems that has been raised here today and that you want to deal with, but, for instance, we have the LDC's here, the local development corporations, where you might want to consider, even though that has been cut, that program is still intact. So that you may want to consider developing you a local development corporation.

Mr. **Brown**. We have one.

Mr. **Savage**. Oh, you have one.

Mr. **Brown**. Those are the ones who decided to use the HUD money the way they are using it. And the reason why I have come here is not to talk about HUD but to indicate the impossible situation that the black businessman in Oak Park finds himself in.

Mr. **Savage**. No; LDC is not HUD. No. LDC is Small Business. Maybe we are not talking about the same thing.

Mr. **Brown** No. We have a commercial development fund and we have an LDC, too. See, our commercial development people are the same people. In other words, the savings and loan in Oak Park and the bankers in Oak Park and the city administration in Oak Park and the people who live in North Oak Park are the people that run all of that.

Mr. **Mitchell**. Is there a MESBIC in that area?

Mr. **Brown**. What is it?

Mr. **Mitchell**. A MESBIC. A Minority Enterprise Small Business Investment Council.

Mr. **Brown**. Absolutely not.

Mr. **Savage**. Let me ask counsel here, wouldn't they be eligible to apply, at least, for an LDC status? I mean if he is representing the Harrison—I presume you are representing the businesses along Harrison Street; is that right?

Mr. **Brown**. Yes; from Austin to Harlem.

Mr. **Savage**. Harrison Street, and that is a commercial strip.

Mr. **Brown**. That is a commercial strip.

Mr. **Savage**. Let me suggest: Why don't you contact your Congressman, in this case Congressman Hyde, and indicate to him your interest?

John Smith, he can apply for a 503 LDC situation; right?

Mr. **Smith**. What we have done with all of those LDC's that have been recognized and they have done deals with us in the past, they were all communicated with when the new act was passed, 503. Many of them have applied for certification under the certified development program and used the 503 process.

We haven't heard from Oak Park yet.

Mr. **Mitchell**. Well, it is not too late, is it?

Mr. **Smith**. It is not too late. It is an ongoing process.

Mr. **Mitchell**. And then the other thing, it seems to me, that as a result of these hearings, we should at least be in contact with Congressman Hyde ourselves pointing out the problem that you have presented to us.

Mr. **Savage**. Plus Mr. Brown's organization could contact your office directly; right?

Do you understand, Mr. Brown?

Mr. **Brown**. Yes, sir, I will do that.

Mr. **Savage**. Because what you are talking about is money for increasing the business operations and the products, increasing the variety.

Mr. **Brown**. That's right.

Mr. **Savage**. Well, now, you are not going to get that from HUD or through your community development grant. That is not where that comes from.

Mr. **Brown**. They have made that very clear.

Mr. **Savage**. OK. I just want to get you turned right. I can't guarantee you you will reach your destination, but I at least want to get you on the right road going the right direction.

Mr. **Brown**. OK.

Mr. **Savage**. Now, you need to go to the Small Business Administration.

Mr. **Brown**. That's John Smith, right?

Mr. **Savage**. Right here, right. And representing your organization and, of course, don't hesitate—I am sure that Congressman Hyde, the same as any of us would do for you as a constituent, would be glad to lend the help of his office wherever you need it.

Mr. **Brown**. I have a letter from Congressman Hyde expressing his appreciation for my correspondence and saying that he will be more than glad to work with us to try to help us out of our dilemma and he assigned a man named Patrick Duranty to work with us.

Mr. **Mitchell**. And we, too, will be in contact with Congressman Hyde.

Mr. **Brown**. I have talked with him on several occasions and he is a very nice man and he drinks coffee well. That's been about the extent of his assistance. Not that I blame him. Oak Park is a hard business to tackle, you know. But it is our job to do that and that is what I am about to try to do.

I won't take up any more of your time and I thank you.

Mr. **Mitchell**. I thank you. We like to be presented with problems to at least try to start moving in the right direction and we will be in contact with Congressman Hyde.

Mr. **Brown**. Thank you very much.

Mr. **Mitchell**. Thank you.

Ms. Babette Peyton.

Thank you very much for being with us today. Do we have a copy of your statement?

Ms. **Peyton**. No, sir, you don't have it before you.

Mr. **Mitchell**. All right. Will you supply one for the record, please?

Ms. **Peyton**. I certainly will.

Mr. **Mitchell**. All right, if you will just make your statement now.

## TESTIMONY OF BABETTE U. PEYTON, CREATIVE CONSULTANT, SEE PRODUCTIONS

Ms. **Peyton**. Thank you.

Mr. Chairman, members of the Small Business Committee, distinguished guests and visitors, I wish to thank my Congressman Gus Savage for bringing this illustrious committee hearing to Chicago, Ill.

My name is Babette U. Peyton and I am a creative consultant and executive director of SEE Productions, a small art business with a diversified management arm presently negotiating in Africa.

In response to the invitation extended to me by this committee dated June 15, 1981, and signed by the Honorable Parren J. Mitchell, I have prepared a set of recommendations, as requested, which deal with innovative governmental procurement of small business contracts from artists, media specialists, and creative consultants, including minorities, an impactual component of our U.S. national gross product.

If implemented, these recommendations will certainly strengthen the involvement of arts professionals in small and minority businesses in the Nation.

What does innovative Government procurement mean? It means Government finding new ways of doing business with artists, media specialists, and creative consultants. It further means: One, increasing employment; two, providing access to capital and related resources enjoyed by other businesses; three, providing a box on the State and Federal income tax forms which allows individual taxpayers to voluntarily contribute tax deductible dollars for support of the arts and artists in much the same way as dollars are contributed to Presidential campaigns, similar to the bill H.R. 1042 introduced by Congressman Fred Richmond of New York.

So you can see my program does not rely upon welfare and breadbasket assistance or unemployment insurance, made targets by the Reagan administration budget cuts. Rather, it focuses on artists moving America toward economic and cultural sanity and vitality and moving them swiftly but surefootedly so that any further surgical economics that are performed on our country's budget allows for redistribution of resources to include artists, media specialists, and creative consultants in the proposed fiscal 1982-83 budget.

We must take a holistic approach to the question: What do we do when there are no jobs, no resources?

I would like to recommend Project Innovate, an acronym for opportunities vital to artists impacting our cultural economy.

Project Innovate will bring together a community of Government, business, labor, and artists charged with the goal of putting these professionals back to work. That is why my testimony is so crucial.

Government must play a key role in the development of this project. As in all programs where Government lends timely assistance, monitoring, review and evaluative mechanisms must be built in from its inception. This will insure that objectives will be clearly defined and scheduled, strategies chosen realistically, and complementary policies developed.

It will also allow media and resource information to be collected, categorized, and synchronized with the same energy and concept of design designated to the aerospace program by the Department of Defense.

I would like to chair this committee representing the disciplines of art, media, and creativity. My background includes a certificate in international economics from the University of Paris I, Paris, France; a B.S. degree in marketing management from the University of Maryland, and my M.A. degree in dance and theater conferred by Northwestern University.

I am also a veteran of the U.S. Armed Forces.

I have prepared a position statement on this subject and it will be available for your review.

Thank you.

Mr. **Mitchell**. Thank you very much. I was just out in Los Angeles a couple of weeks ago and the unemployment for the artists out there is—the unemployment there is just horrendous. So I am very, very sympathetic toward the approach that you are talking about.

My first reaction is that I am not at all sure that it falls under the aegis of the House Small Business Committee. But why don't I just reserve judgment until you send me in your complete statement?

If it is not within our aegis, then I will certainly refer it to the proper committee of Congress. Or it might well be that there is double jurisdiction. I just don't know, so I will just hold until I receive your statement.

Mr. **Mitchell**. Congressman Savage?

Mr. **Savage**. No questions.

Mr. **Mitchell**. How soon will you be able to get that to us?

Ms. **Peyton**. On Monday. I am in Springfield right now. I came up this morning. I am at an arts administrators workshop down there, there are arts administrators from all over the country, from Guam and from Alaska, dealing with problems of management.

I think that artists right now are faced with the problems of management, fiscal management and marketing. There is a market out here for art products. And the conception has been that artists are not business people. That is true for a lot of artists; but there are in a lot of other businesses that you have seen.

Mr. **Mitchell**. Yes.

Ms. **Peyton**. So I will prepare that.

Mr. **Mitchell**. And why don't you send it to the personal attention of Major Clark, and let him make a staff review of it to see whether or not there is double jurisdiction or it belongs with our committee or not.

Ms. **Peyton**. OK. Thank you very much.

Are there any more questions?

Mr. **Mitchell**. I don't have any more questions until I look at your proposal.

Ms. **Peyton**. Thank you.

Mr. **Mitchell**. Thank you.

Ms. Drake, I am sorry I overlooked you in calling—is Ms. Charlotte Drake here?

Ms. **Drake**. Yes.

Mr. **Mitchell**. I beg your pardon. I was just reading down the list and I skipped over you. I am very, very apologetic.

Ms. **Drake**. That is perfectly all right.

## TESTIMONY OF CHARLOTTE DRAKE, EXECUTIVE DIRECTOR, SOUTH SHORE CHAMBER OF COMMERCE

Ms. **Drake**. Chairman Mitchell and the other Honorable Congressmen, I appreciate having been invited here today. My name is Charlotte Drake, the executive director of the South Shore Chamber of Commerce.

I would like to testify today on the status of businesses in the South Shore area. South Shore is an area on the southeast side of Chicago, located on the lakefront, consisting of approximately 90,000 residents and 1,500 businesses.

Many existing businesses are marginal in nature due to the lack of sufficient working capital, management expertise, and marketing strategy.

At one time, South Shore was the southside's most fashionable shopping district. Although our area has six commercial strips, there is no high-status shopping area in South Shore now. Our community can and will revive itself when it realizes reinvestment in the community by major corporations and institutions that are there now, increased security, physical rehabilitation, cultural development and public improvements.

In spite of today's economic plight, residents will support quality business. It is the responsibility of the business community to provide them. The condition of our commercial strips adversely affects both existing and potential merchants and consumers. Because our area is experiencing an economic rebirth, the South Shore Chamber of Commerce is soliciting aid from all available sources in our attempt to assist in upgrading and enhancing our existing businesses.

We recently conducted a merchant survey, and it indicated a need for the following:

We need increased working capital. Too many businesses don't know where the funding sources are. We need somebody to provide that kind of information to us.

We need increased trade credit.

We need management assistance. There are agencies provided for minority entrepreneurs through the Federal Government, agencies such as TAP and SCORE. But my experience as a minority entrepreneur has been that these agencies really are not versed in minority enterprises. I found that the personnel on these staffs are people who are experienced with major corporations. And many minority businesses just don't operate like major corporations.

We have need for marketing strategy.

We have need for advertising expertise.

We need to be told about inventory control, how to design and implement good accounting systems.

We need to improve the physical appearance of our stores.

When our business community realizes all these objectives, we will experience an increase in employment and greater cohesiveness between merchants and consumers, thereby giving all a greater stake in our neighborhood's well-being.

Now, the South Shore Chamber of Commerce is approximately 72 years old. As a chamber of commerce representing businesses in the community, we feel the need to be the most viable organization in the community. Our longevity itself should make us more than symbolic, but we do need assistance, and we need guidance.

We have a revitalization center in our area, which I am told is the only one of its kind in this city, and probably the only one of its kind in this country. It is an adjunct agency of the South Shore Chamber of Commerce. The revitalization center serves as a—and the chamber together, we work in conjunction with each other—and we serve as a liaison between the business and the residential community. Our center serves as a nucleus of activity for the community and we are trying to really increase the businesses in the South Shore area, the potential and the quality of the business. We want to attract better businesses in the community.

I appeal to you today—I am not here to criticize. I am here to appeal for assistance on behalf of the merchants in the South Shore area. I am sure there is something that our Federal agencies can do for us.

The SBA, I have found is really quite effective to a degree. But I have also found that there are not enough persons on the staff of the SBA in decisionmaking capacities that have experience with minority business.

I think I have addressed that to Mr. Jack Smith approximately 2 years ago. We talked about that. As a matter of fact, I asked him how many people were in decisionmaking capacities on the SBA staff that were either minority entrepreneurs or had some background in minority enterprise.

Federal agencies, when we start to talk about procurement, are in a greater position to purchase from minorities than private enterprise. I feel that it is the duty of Federal agencies to set an example for private enterprise by purchasing from minority vendors.

We have the expertise, we have the products. We need some assistance, we need funding. I appeal to you today for that assistance.

Mr. MITCHELL. Thank you.

Are you associated with the U.S. Chamber of Commerce in any way?

Ms. DRAKE. Not associated with, but—well, how do I say it? We try to gather as much information as we can from the U.S. Chamber of Commerce, from the Illinois Department of Commerce, from the Chicago Association of Commerce and Industry.

We are trying to link up with chambers of commerce throughout the world, because there are vendors in the area who are capable of doing business in an international basis. And we feel it would be to our advantage to be intermingled with chambers of commerce throughout the world, so that our businesses can get the kind of exposure that they need and to make the kind of money that we have the potential for making.

Mr. MITCHELL. Are these primarily minority business in South Shore?

Ms. DRAKE. The businesses are primarily minority businesses. We do have many major institutions there. We have major corporations in the area.

One of our problems is that we don't find our major corporations reinvesting in the community. This is one of the things that we really need.

Mr. **Mitchell**. Counsel has reminded me that this is the kind of problem, it seems to me, it is not so much the Small Business Administration's problem, but the Minority Business Development Agency's problem. You have the MBDA in Washington which I understand is supposed to, at least in the past, work in cooperation with the SBA.

And certainly if that Agency has the responsibility for such things as management assistance, marketing strategy, and so forth—have you been in contact with them at all?

Ms. **Drake**. I have not been in contact with them. One agency in the city of Chicago that has been very responsive to us has been the MBOC.

Mr. **Mitchell**. Why don't we, with your permission, take a copy of the testimony, and I will do a covering letter on it, and send it to Mr. Rivera who is the Administrator for the Minority Business Development Agency in Washington, and let us start feeling out a process to see what, if anything, that Agency can do to be of help.

If they are going to be of help, I would assume that one of the first things that they are going to do is try to tackle the private sector that is already there to enter into some greater financial contribution toward the general uplift.

Congressman Savage?

Mr. **Savage**. Yes. Is the focal point of your activities, the 71st Street shopping strip?

Ms. **Drake**. No; it isn't. We have six commercial strips. The South Shore area is bounded on the north by 67th Street, on the south by 83d Street, on the west by Stoney Island, and on the east by the lake. We are in your district.

Mr. **Savage**. So, you also have the 79th Street shopping strip?

Ms. **Drake**. We have the 71st Street shopping strip, we have 75th Street, 79th Street, Stoney Island, and Exchange Avenues.

Mr. **Savage**. I see.

Mr. **Mitchell**. Thank you. We will "cc" a copy of our correspondence to that Agency. I frankly don't know the answer. This is why we have to come out, find out what the problems are, and start probing for some solutions.

One way or another, you will hear from me within 30 days.

Ms. **Drake**. I thank you very kindly.

Mr. **Mitchell**. I thank you.

[Additional material supplied by Ms. Drake follows:]

[Exhibit A]

South Shore Chamber of Commerce,
*Chicago Ill., June 5, 1981.*

Purpose: To Announce Appointment of Executive Director, South Shore Chamber of Commerce, an Appointment of New Project Director, South Shore Revitalization Center.

THEME: PHASE II: ECONOMIC GROWTH

The South Shore Chamber of Commerce is concerned about restoring and maintaining the economic vitality of our community. We are examining many approaches, one of which is to appeal to the community at-large to challenge merchants and residents alike to become sensitive to the needs of the community.

Charlotte Drake, a South Shore Resident and Chamber Board member, has been appointed to serve as Executive Director of the South Shore Chamber of Commerce. Her duties will include implementing the many programs designed by the Chamber to serve the community. Along with Mr. Medrick Henson, our newly appointed Project Director for the South Shore Revitalization Center efforts will be made to organize both business-persons and residents in a joint partnership to revitalize and redevelop the community to a status of safety, security and economic prosperity.

South Shore is rich in resources and rich in talent. Our goals are high. Our programs are many. We have the talent. We have made the commitment.

We have officially launched our "OPERATION CHALLENGE" Program which is a year round series of events designed to foster economic growth and re-establish commercial and residential stability to the South Shore Community.

[Exhibit B]

South Shore Chamber of Commerce,
*Chicago Ill., June 11, 1981.*

### SOUTH SHORE CHAMBER OF COMMERCE LAUNCHES MASSIVE MEMBERSHIP RECRUITMENT PROGRAM

As part of our "Operation Challenge" Program the South Shore Chamber of Commerce announced today the official launching of a massive membership drive. The membership recruitment program is designed to challenge concerned citizens throughout the city to commit themselves to the redevelopment and revitalization of the South Shore Community.

The geographic and economic characteristics of South Shore are most unique. We are an affluent lakefront community of approximately 90,000 residents and 1,500 businesses. Our area is rich in both resources and talent: "The South Side Gold Coast".

Because South Shore is experiencing an economic rebirth, we are soliciting memberships from a broad cross-section of concerned and informed citizens in our efforts to provide expertise and services that will enhance our spiraling neighborhood economy. Our goals are high. Our greatest assets are our members.

Our challenge today is that concerned persons no longer stand outside the window and look in. But rather that each add a measure of confidence and support by becoming involved.

As this decade unfolds our energy will be directed to the objectives and goals of the community. Our efforts will interface vigorously with other community forces to network effective programs that enhance the community image.

Our Membership Theme is: "Each One—Reach One".

Join today. We need you!

Mr. **Mitchell**. Is Ms. Veda King still with us?

Ms. **King**. Yes.

Mr. **Mitchell**. Is Mr. Stallworth still here, Mr. Charles Stallworth?

Is Mr. Stallworth here?

[No reply.]

## TESTIMONY OF VEDA KING, PRESIDENT, RAYDA CO.

Ms. **King**. I would like to make mine short, and I would like to stand. As you can see, I have difficulty walking.

Mr. **Mitchell**. Surely.

Ms. **King**. I would like to make two recommendations to get back to the 8(a) program. I am here to suggest, because I am a wholesaler in the heating, plumbing, and electrical supplies, I service primarily industry and the black contractors, so I am asking that we be included within the 8(a) program which is most vital to the subcontractors on the contracts that they might win.

Oftentimes, they have hard times getting their materials, reading their specs, understanding some of the things that we wholesalers can give them.

Wholesalers can come under the program, whereby they could graduate within the 3-year period and be a viable commercial firm which would have a great deal of importance within the community, and help these people to maintain their contracts.

The second thing that I am here to state is that I am upset because communication does not flow properly within the SBA and its administrators as to what types of loans are available.

I am handicapped. I have been going to SBA for the last 12 to 15 years. I just recently found out about the help program. No one in SBA went out of their way to find it. I just told Jack this morning that I was a little upset about it.

So I think that communication, better quality of people within the 8(a) program, opening the doors to wholesalers, because major manufacturers are giving Congress a whitewash through their lobbyists. They are telling you they are willing to help us; which they are not. When we go back to buy supplies or to stock them, they raise their criteria for the amount of merchandise we must inventory out of question.

The second thing they tell you, "We can't let you become a bona fide distributor because we have had territorial rights. We have serviced the country for the last 100 years and have been doing it adequately."

Mr. MITCHELL. You really get on a problem there. It goes across the board. That is the institutionalization that has taken place in the American economic system.

Now that we are trying to get in, a company can say, with some legitimacy, "I have been dealing with this subcontractor for the last 35 years. Why should I change?" Or, "We have been dealing"—as you have just indicated—"We have certain territorial problems that we have to meet." That is the real big thorny problem you are going to have to deal with there.

Ms. KING. I wrote you a letter, but I didn't get a reply back with this.

Mr. MITCHELL. When did you write me.

Ms. KING. This was 1½ years ago, because I was simply furious with a company in Ohio. The major companies had to use these particular pressure valves. I am speaking primarily of the oil company at that particular time.

I became furious with the company and wrote back and told them I was a member, and an American citizen and part of the melting pot. I was here when he got here. And it was just by accident that I got a drop of the slavery blood in me. So I had got set up with one of his territorial distributors. I finished that particular contract, but the merchandise went to Washington, the State of Washington. The State of Washington territorial distributor became so furious that I had won this contract, that he went back to the company and demanded an extra 5 percent from us.

I didn't get a reply from your office at the time.

Mr. MITCHELL. Yes.

Ms. KING. So, here again, you see, the same thing is predominant now. I hear a lot of things about counseling and bringing in supplies to the subcontractor within the construction industry. I hear nothing yet about the war on minerals and how it is tied in with foreign trade and how it affects us and how none of our blacks are being taught by major business how to get involved with working from raw materials up.

Mr. **Mitchell**. Yes.

Ms. **King**. If they go into raw materials and manufacture something and do bilateral or vertical or horizontal business integration, how will we, the small wholesaler survive?

Mr. **Mitchell**. I just have one other concern that I want to express to you. That is on the wholesaling being included in the 8(a) program. It is not, as you have indicated.

I think it should be.

Also, we have had some problems with brokers. It seems to me that brokering is a legitimate business, which ought to be covered under the 8(a) program.

But my problem is, in light again of these stupid cuts that have been made in the programs, to what extent the SBA would even consider redefining those, reworking those who might be covered under 8(a). I promise you we will give it a try.

Ms. **King**. All right. But since this is the year of the handicapped, and I certainly meet those criteria——

Mr. **Mitchell**. Yes; no question on that.

Ms. **King**. Is there any way then that SBA and the 8(a) can look at the handicapped? I mean, I am like many others. "Gee whiz, you have got a good brain. If you just come to work for me." Well, I can't go and work for you, because if you call me and my feet hurt and I can't walk, you are ready to fire me. But if you let me run my business, I can pick up the phone and call an employee and get the job done.

Mr. **Mitchell**. What is the address of Rayda Co.?

Ms. **King**. 1809 South Indiana Avenue.

Mr. **Mitchell**. I just advised counsel, let us try to get in contact with you.

Ms. **King**. All right. I have more or less agreed with most everything that has been said here, particularly with the statement of Paul King.

Mr. **Mitchell**. I don't want to make any promises that I can't deliver on. That is why I would rather go back to Washington, go through this process and see what is available through the disabled program, see whether or not there is any way yours can be made in your case because you are disabled with reference to the SBA, and inclusion under the 8(a) program. These are all things that we are going to have to try to find out.

Ms. **King**. Thank you very much.

Mr. **Mitchell**. Thank you. Thank you for waiting all day.

I am going to ask unanimous consent that the statement of Mr. Stallworth, who had to leave, be entered into the record as of this point.

[Mr. Stallworth's prepared statement follows:]

## PREPARED STATEMENT OF CHARLES STALLWORTH, PRESIDENT, CONSUMER DENTAL PRODUCTS CO., CHICAGO, ILL.

Consumer Dental Products Co. Inc. was established recognizing the exceptionally high demand for dental and medical equipment and supplies. There is an endless list of users of such equipment and supplies, i.e., hospitals, clinics, dentists, laboratories, institutions (penal and educational) and day care centers to list a few.

Before Consumer Dental Products officially opened its doors for business, Mr. Stallworth and Dr. McDonald spent six (6) months identifying and cultivating sources of supply and clientele. Letters were prepared and sent to numerous manufacturers, alerting them to the nature of CDP's business. Contacts with manufacturers were made on a selective basis. Only those manufacturers carrying product liability insurance and having product warranties were contacted. Names of manufacturers were selected after reviewing issues of the Journal of the American Dental Association and noting if these companies were also listed in the Standard and Poors register.

Bidders mailing list applications (SF129) were sent to all Veterans Administration Facilities, Public Health Service Facilities, and military organizations, (Army, Navy, Air Force, etc.). Letters were written and visits made to various state and city governmental agencies. Company brochures and catalogues were sent to dentists and institutions in several states. Application was made to participate in the Small Business Administration's "PASS" program. Thorough daily screening of the "Commerce Business Daily" publication was done religiously in search of leads and information on various government contracts.

The following realistic economic projections and goals were established: 1978—annual gross $5,000; 1979—annual gross $100,000; 1980—annual gross $250,000; 1981—annual gross $750,000 to $1,000,000; 1982—annual gross $2,000,000.

During 1978 the company experienced no gross sales because these initial months were spent developing manufacturer and customer contacts. The year 1979, our first fully operational year, reflected a gross income of $94,000.00. Our gross income for 1980 was approx. $170,000.00

With the aid of an $180,000.00 direct loan from the SBA during 1979 CDP found itself in high gear, moving swiftly down the highway of the business world making impressive accomplishments including the following:

### MAJOR ACCOUNTS

(1) Department of Energy, Argonne National Laboratory—CDP sold over $25,000.00 of laboratory products to D.O.E. for energy and scientific research during 1979.

(2) General Service Administration—CDP was the only black owned company to successfully compete against major dental manufacturers and dealers for GSA negotiated bid number FCGS-M-90189-N-7-30-79. This contract was for dental equipment, supplies, instruments, x-ray apparatus, x-ray film processing equipment and related items. The contract stated that CDP was a mandatory source for the normal supply requirements of all departments and independent establishments including the wholly owned government corporation in the executive branch of the federal government (except the Dept. of Defense, Veterans Administration and the US Postal Service and the District of Columbia Government—However, these agencies used GSA contracts for purchasing supplies), for use in the 48 contiguous states and Washington, D.C. The contract period was from December 1, 1979 through January 31, 1981. Expected gross sales for this contract was $540,000.00.

(3) HBH Company—(a joint venture of Hughes Aircraft Corp., the Bendix Corporation and Holmes and Narver Inc.) HBH was the prime contractor that was awarded a federal contract to construct and equip two naval bases in Saudi Arabia. CDP was awarded the subcontract for furnishing equipment and supplies for the dental clinics in the hospitals at the King Faisal Naval Base, Jidaa, Saudi Arabia and the King Abdul Aziz Naval Base, Jubial, Saudi Arabia. The awarded contract was for $225,000.00. An additional contract was promised to CDP for approx. $150,000.00.

(4) Sunstrand—(Sunstrand Advanced Technology Operation, Rockford, Illinois) Sunstrand manufacturers high technology aircraft instruments and components. CDP sold laboratory products and reagents that were used in research for developing a space craft that would retrieve space waste. Sunstrand had to earmark at least 2 percent of its billion dollar plus contract from the federal government to majority contractors and suppliers. The expected gross sales to Sunstrand was $50,000 to $100,000.00.

(5) U.S. Army, Fort Polk, Louisiana—CDP was awarded a one year contract through the competitive bidding process for laboratory products and hospital supplies. Contract amount was $32,000.00.

(6) The University of Chicago—CDP was awarded a one year open contract to provide dental equipment and supplies for the Wilder Dental Clinic. Expected contract amount was $50,000.00.

In addition to the previous major accounts and contracts CDP is also proud of the following acomplishments.

(1) Employment Opportunities—CDP had a staff of 7 employees including sales force, clerical and warehouse clerks. There was a partime sales force or five. Our staff was representative of several disadvantaged groups including Vietnam Veterans, senior citizens, women, and latinos.

(2) Awards and memberships:

A. National Alliance of Business Award in recognition and appreciation of demonstrated business leadership and social consciousness in furthering the cause of providing jobs and job training for disadvantaged persons, needy youth and ex-offenders.

B. Membership Chicago Urban League—CDP joined the CUL with the hope that the league will continue their work in improving race relations through the techniques of research, education and community organization.

C. Member—Minority Business Opportunity Committee U.S. Dept of Commerce.

D. Member—Minority Business sub-council, Chicago Regional Purchasing Council.

E. Member—Economic Business Development Council—Operation Push.

F. Member—Chicago West Side Businessmen Association.

G. Award—National Association of Media Women, Inc. for contributions to their 75th Annual Convention.

Consumer Dental Products Inc., in just two and one half years time, grew from a brief conversation that two neighbors had while drinking beer into a viable Medical-Dental Supply concern with a seemingly unlimited potential for growth. This period of CDP's existence was also brought with a multitude of problems and seemingly adverse situations. Many of the problems CDP faced were probably similar to the problems of other small minority businesses (cash flow, security etc.). But some of its problems were very unique and must be explained to be understood.

Consumer Dental Products Inc., being a sales oriented corporation, was heavily dependent on a viable, capable and productive sales manager. Between January 1979 and January 1981, CDP has hired three different top flight sales managers. Of these three, two were approached by and are presently working with larger competitors and one has formed his own Dental Supply Company and appropriated several of CDP's accounts by informing them that CDP had changed its name to the name of his newly formed company. Needless to say, many valuable employee man hours were spent tracing our accounts and informing them that CDP was still in business and to continue sending orders and payments to our office.

CDP did not receive even one order, letter or phone call from any federal agency as a result of participation in the SBA's PASS program.

After spending over $5,000.00 to meet the GSA contract requirements (publishing price list, mass mailing of catalogs, visits to GSA Office in Washington, D.C., etc.) CDP received less than $1,000.00 in orders from the contract. Again note that this contract was for mandatory use by Federal Agencies.

The numerous federal accounts CDP sold to were acquired solely by the initiative of the corporation's officers. Selling to federal agencies (V.A., Army, Navy, etc.) created a serious cash flow problem due to the fact that these agencies send payments 45 to 60 days from date of invoice. The credit terms that all of CDP's manufacturers extended to the corporation were either: (1) Cash in advance; (2) COD; (3) 2 percent 10—net 30.

The larger, more established supply houses receive more favorable credit terms such as net 60 or net 90 days. Considering that 80 percent of the corporations business was with Federal agencies, anyone can see the importance of receiving prompt or timely payment for merchandise sold.

One of the most significant obstacles CDP encountered came about as a result of our HBH subcontracting opportunity. When our bid was submitted to HBH, CDP stated that at least 50 percent to 100 percent advance payment must be received before supplies could be shipped. After the contract was awarded to CDP, the president, Charles Stallworth, visited the HBH offices in Washington, D.C., where he was told that although HBH had received advance money from the Dept. of Defense, CDP could not be advanced any money to help fulfill the contract. Mr. Stallworth then went to the SBA, contract in hand, and was told that the SBA could not help us (manufacturers wanted cash in advance for equipment going to Saudi Arabia). The SBA suggested that CDP request assistance from a large minority owned bank on the south side of Chicago. The banks vice president said that funds were available to help us, however forty five days later the bank still had not acted toward approving the loan. At this point HBH assured the bank that the contract was assignable, but the bank still did not respond. HBH then agreed to advance some funds direct to the bank but the bank refused because their loan committee had not acted on CDP's loan request. Several months prior to this unfortunate turn of events, CDP had obtained and paid off a 90 day loan for $20,000.00 at this same bank. Mr. Stallworth returned to the SBA where it was suggested and approved that an outside finance company, with exorbitant interest rates, purchase CDP receivables. Being in the position of not being able to obtain additional working capital, CDP subcontracted the HBH contract to a Dental Supply company in Michigan. Of the 30 percent profit that CDP would have cleared, only a profit of 1 percent was realized moreover, HBH cancelled a part of the contract due to delays in receiving the equipment.

CDP's problems were further compounded by the disappointingly small orders received from Sundstrand. Also the University of Chicago informed us that the one year open contract was awarded to our former Sales Manager.

Because of these problems and the associated delinquincy on a SBA loan, the corporation ceased doing business on February 9, 1981.

The officers of CDP offer the following recommendations that, we feel, will help prevent other minority business from experiencing problems similar to CDP's.

(1) There needs to be a more effective SBA PASS Program to help identify and amalgamate minority suppliers with the proper Federal users.

(2) Expedite 8A placement for minority companies that have acquired contracts through the competitive bidding process but lack an adequate financial base.

(3) SBA should periodically monitor the progress of direct loan recipients so that any potential problems can be minimized or eliminated.

(4) Monitor and enforce the subcontracting opportunities to be given by prime contractors, especially in the medical and dental supply field.

(5) Enforce Federal law requiring governmental agencies to buy from GSA schedule.

(6) Establishment of a National Alliance of Small Minority Business the purpose being to develop and foster a spirit of cooperation and consciousness between minority businesses so as to reduce their dependency on Governmental agencies (SBA, MBDA, EDA). The minority businesses in each local branch would have access to a local resource pool composed of legal, economic aid, managerial, accounting and manpower services.

### SUMMARY

These accomplishments and problems are just a few of the things that happened to CDP from Feb. 1979 to Feb. 1981. I feel that the major blows came when GSA Headquarters in Washington, D.C. indicated that the Veterans Administration and other Government agencies were in violation for not buying from CDP and further more, the person to whom I spoke suggested that CDP had substantive grounds for legal action. Secondly, when the SBA foreclosed on CDP (Came into the office and dismissed our employees and took the keys) instead of helping CDP participate in the milti-billion dollar supply opportunities for medical, dental and laboratory equipment and supplies required by the Federal Government each year.

**Note:** This written testimonial is submitted without complete documentation due to the fact that CDP is no longer in business. However, if requested CDP can reconstruct data and obtain copies of documents needed to substantiate any and all claims made.

**Mr. Mitchell.** We will now hear from Mr. Marvin Wortell.

Mr. Wortell, you, too, have been exceedingly patient with us all day long, and I thank you for your patience.

## TESTIMONY OF MARVIN WORTELL, PRESIDENT, TRITON METAL PRODUCTS, INC., CHICAGO, ILL.

**Mr. Wortell.** Thank you, Chairman Mitchell, Mr. Savage, and staff.

My company probably is in a little different position from the majority of emerging companies we have heard from today. We have been around 20 years.

I would like to comment off the record.

We manufacture complex sheetmetal assemblies for the computer, word processing medical equipment and other high technology industries. Our customers are spread across the entire United States—at one time all of our business was Chicago based. We employ over 100 people.

When I founded my company—as an engineer I knew very little about business. One of the things that I would recommend is to learn as much about running your business as you can, preferably from your peers. If in manufacturing join your trade association and ask for help—you'd be surprised how many people will help a fellow businessmen.

I learned by experience, from my mistakes and from my peers. I would recommend that a lot of the people here who are new in business try to expose themselves to more successful operations, if it is a retail business in a black neighborhood, look over how the white, more mature businesses are prettying up their stores, and so on. It is a learning process.

This is the off-the-record remark I make.

My company is a capital intensive industry and use bank borrowing extensively.

Our ability to raise capital is severely limited because we are a small business and our stock would have limited distribution potential.

The interest rate structure for small business is out of bounds. There even have been comments in the press whether small business is discriminated against with the so-called prime rate. As a small business borrower, there is generally a figure something over prime.

Now, there is another avenue for capital formation. The only means in a free society to meet needs for goods and services and create new jobs is an ever-increasing and free flow of capital.

Small business is a primary source of new jobs, and a new investment averaging $30,000 is needed for each new job at Triton. Government should provide a political climate in which this greater free flow can be achieved.

Current tax and regulatory policies combine to stifle the development and retention of capital.

I will get off my notes again. The 1974–75 recession was the first time my company had lost money. That was, of course, the most severe recession we have had since 1929. No one has used the term we are broke, they say we have a cash flow shortage. We had a very severe cash flow shortage.

Mr. **Mitchell**. That is a nice euphemism there.

Mr. **Wortell**. Right.

You know, what was amazing, it wasn't after 1 or 1½ years later, I had a great big tax bill to pay. I couldn't understand it. It seemed very strange. What a great thing it would have been to have kept some of those dollars so that I wouldn't have to go to the bank and borrow at high interest rates in order to buy equipment and hire more people.

At any rate, our country needs a dramatic move in a direction away from the path we have been following. This will stimulate jobs staying in our country and in our cities.

I expect the minority counsel now to jump up for joy. It is imperative that the administration's Economic Recovery Act, H.R. 3849, is enacted before the August recess. There is no time for bickering or partisan politics. By this show of unity will the country get back to a high level of confidence and a healthy economy.

You didn't get up and jump for joy.

Mr. **Mitchell**. I did hear the minority staff quietly applaud it.

Look, I don't think that there is any question that this is not, for me, a partisan issue. We are approaching the same goals, I hope.

I have some major concerns with the overall approach being followed by the administration

Mr. **Wortell**. But what we have done for 40 years, 30 years hasn't worked.

Mr. **Mitchell**. Just let me finish, if I may, please.

I have been one of the few Members of Congress who has said: "OK, if you want to try it, let's try it. But we have no guarantee that this approach will work. But let's try it. But in the meanwhile, don't go through this, what I consider incredibly stupid business of demolishing programs, throwing out everything of some value, hoping that something of value will come later on."

I have had some problems with the leadership, the Democratic leadership, because I have suggested a tandem approach: "Let's try this. But in the meanwhile, let's keep a housing program going, and extent and degree which suppliers and economics supplies housing, then you cut back on housing."

That is one of major difficulties with this overall approach of the administration, that I think it ought to be done in tandem with some ongoing efforts.

The second observation I would like to make is, I personally did not find the original administration's tax proposal as beneficial for small business as I would like to have seen it to be. Therefore, I have opposed it.

All right, from what I know of the tax proposal that will come out of the House Ways and Means Committee, it is clearly more beneficial for small business. And I would hope that as soon as that is completely made available to the public, you might study it and avail yourself of it.

I have concerns also about the third year out, primarily because, given what has happened in our economy over the last 2 or 3 years, we don't know where we will be the third year out. I would go along with 2 years in general. But because of the vicissitudes and uncertainties of our economic system, many of these uncertainties not traceable to domestic policy, but to international developments, I am reluctant to go 3 years out.

So, having said all of that, I will say that I am sympathetic to your problems, and I want to be of some help. But I would hope that you take a look at that other tax proposal.

Mr. **Wortell**. I have. And, of course, the House Ways and Means proposal has come out to 1990, and it is doing some of that in the same way.

I say, we should take one plan, the administration's plan, it has some disadvantages, not all for small business. You are right. More so, businesses of my size.

But I say let us do something, because my company, even during that 1974–75 recession, I still bought capital equipment. I had to. I spend money. And I am not spending now until we get this house in order. I want to know where we are going so that I can provide some more jobs.

Mr. MITCHELL. Let me assure you that when I look at a 20-annualized rate of failure for small business, it is clear that something must be done.

Mr. WORTELL. That is right.

Mr. MITCHELL. The question is: What do we agree upon? And as of this moment, 6 minutes after 5 in the city of Chicago, I am not at all certain that I am in agreement with the Reagan approach.

Thank you very much.

Mr. WORTELL. Thank you.

Mr. MITCHELL. Mr. Bob Doench. Again, thank you for waiting such a long period of time.

## TESTIMONY OF ROBERT M. DOENCH, CHAIRMAN, SMALL BUSINESS COUNCIL, CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Mr. DOENCH. I certainly am privileged to appear before you and Mr. Savage, speaking as the chairman of the Small Business Council, Chicago Association of Commerce and Industry, and also as president of my own small business.

Mr. MITCHELL. Pull your mike just a little closer.

Mr. DOENCH. OK.

I have prepared a statement here. I assume you have the statement.

Since we are running behind, I will kind of highlight my statement without reading the whole thing.

I was a delegate to the White House conference and was, of course, proud to be a part of that gathering. I think that one of the things that came out of that conference was that fact that, of the 15 highest priority items, 5 dealt with capital formation. I think it was apparent, obviously, that capital is the highest priority of small business, regardless of the background of the owner.

Several ways to obtain capital, one is retention which can be addressed, of course, by tax reform, and that is in some of the tax proposals now before Congress.

However, capital formation, and/or access to capital, I think, is another matter. The purist, and I suppose, in that regard, I mean people like David Stockman and folks of that nature, feel that the budget cuts will reduce the Treasury's appetite for funds and, as a result of this, there will suddenly become a flood of capital available to business in general, and they are thinking that small business will be a major beneficiary.

This was stated by Murray Weidenbaum in an article in Inc. Magazine back about 3 months ago. I disagree with most of the contents of that article by Mr. Weidenbaum.

Quite to the contrary, I think capital has become and is becoming more concentrated. Trends now taking place in the financial industry, I think, underscore this and point even more with these huge mergers with American Express and brokerage firms and the banks and this and that.

And also, in the last 2 or 3 weeks, private Fortune 500 companies have borrowed over $20 billion to buy each other. I would assume that that won't create one new plant nor one new job, and will probably will result in displacement of jobs, because obviously when Du Pont buys Conoco, they don't need two treasurers, they don't need two data processing people.

Mr. MITCHELL. May I interrupt you just a moment at this point? And I promise not to do it again.

I think if I had to point to the single largest danger to the American economy today, it would be the concentration of money, of capital and power in an increasingly smaller number of business entities.

It is a frightening prospect, which I think the Congress is blithely ignoring.

Mr. DOENCH. Right. This is part of what my testimony says here.

Small business, of course, and I think it has been said those with less than 20 employees, create nearly two-thirds of all the jobs and, of course, do not have access to this national credit market like the large companies. Yet, we create all the jobs.

What can be done, and with basically having been a White House delegate, I, of course, support the five recommendations. However, knowing that small business is labor intensive, 10-5-3 doesn't really help small business that much. But, in a sense, anything that helps business, perhaps on a trickle-down theory, 10-5-3 will help small business.

However, as Mel Boldt stated earlier—and Mel and I did not get together and write our scripts, I assure you, and we are good friends—I, too, support tax credits and tax incentives to make small business a quasi-tax shelter so that it can get money in that regard rather than these nonproductive tax shelter schemes that have been going on for years, where you buy Bibles and phonograph records and things and get big writeoffs which don't create any jobs.

We have heard quite a bit about the SBA today. I would like to say that as an adjunct to my prior mention, I think the SBA is in place, obviously, as substantiated by a number of bankers that I have talked to, is working effectively. The SBA, I believe, guaranteed some 30,000 small business loans in 1980.

One of the things that I feel is that with the hold on the program, some of the district offices, Chicago included, were in jeopardy of running out of guarantee authority. I think this, of course, states that with the improvements in the program over the past few years, more and more banks are utilizing the program, especially on the west coast a number of large banks, surprisingly enough, are sponsoring a great number of small business loans. Not quite the case in Chicago, but certainly on the west coast a number of major lenders do support the program.

I think this long abused and often misunderstood program is working, primarily because the emphasis has been shifted to bank guarantees which permit qualified, especially those certified lenders, to make most of the credit decisions. I think that, of course, one of the White House conference recommendations was expansion of the certified lender program. I support that.

I also feel that from talking to a number of lending institutions who utilize the program that they are not utilizing the program as a last resort, nor, in my opinion, should the SBA be a lender of last resort, but by utilizing the program to give qualified borrowers a longer term payback. I think this is quite important, because this in effect lowers interest rates in a sense because it permits the small business to have an affordable monthly payment and to weather the current high interest rate climate.

In other words, most businesses cannot get a 7- to 10-year loan from their bank. But with an SBA guarantee, many banks, and I know of a number in Chicago, of course, will sponsor a loan for 7- to 10-years, 10 years to buy equipment.

I know of a printing company recently that just bought a brand new printing press for $300,000, with a 10-year SBA guaranteed loan. And, of course, the only other alternative he had was to lease the equipment for 5 years at about a 30 percent rate. So, this, of course, did affect the cash flow very positively.

I got some exhibits. I think your staff should examine them. They are very interesting.

I will only read one letter here. This is from a bank in Dallas, Tex., to a franchise director of a printing franchise in Toledo, Ohio, which has been using the SBA program to an advantage:

> Dear Bax, I regret to inform you that Irving Savings Association must reject your request for financing of the above referenced loan. Although we feel the credit worthiness of the borrower is adequate for such a loan, we are drastically reducing our loans with SBA because of their reduction in the guarantee amount on this type of loan. We have had a very active program with the SBA for the past several years and have excellent experience with these loans. We have yet to have any default and all loans are current. It is a shame that the SBA chose such a course to pursue in their guarantee loan program as it has completely taken us out of the market. Hopefully they will again allow 90 percent guarantees so that we can once more provide the financing for small businessmen.

Now here is a case where the SBA district directors seemingly can do whatever they want, because here was a district office that was only doing 70-percent guarantees. I know, in Chicago, Jack did not ever cut the guarantee figure back.

But I think this underscores the point that—and I know there is some thinking in Washington, as I have been told not to allow 90-percent guarantees. I can say that from some experience in talking to banks, and here is an excellent example.

I have another letter here, which I won't read, from a smaller bank in Downers Grove.

But the smaller banks really won't participate. I think, there again, that the smaller community banks have been excellent participators in this in many parts of the country, and really won't. I think this is an access to capital program that is in place, it is $4 billion. I hope it comes out that way. I know the House and the Senate are getting together. I hope they go more toward the Senate's idea of the $4 billion guarantee program, but we will have to wait and see on that.

To conclude, I think also that access to capital is hindering the expansion of the franchise industry which has historically proven to be an advantageous method of expanding free enterprise.

I am familiar with the program over in Toledo, Ohio, for a franchiser and they have utilized a program the last 18 months to open 140 stores, a significant number which were for minorities and women as this operation lends itself to the so-called mom-and-pop-type operation.

Each loan created three entry level jobs, and, to date, as far as I can determine, there are only 3 failures out of 140.

The Rosenthal hearing, as you know, lately got into the SBA financing of franchises, and I would like to have some comments on that. I know that is another committee, but I think that a good franchiser does not abuse the SBA loan guarantee program.

Another interesting aside to that was that one-third of the new owners of these 140 people were often folks that were about to be or had been displaced by large industrial companies that were cutting back employment.

To conclude, I think the bank guarantee program and the 503 program, working in conjunction with these certified development companies, should certainly be maintained and/or expanded to funnel important capital into qualified existing businesses and into those wishing to start business that are being qualified by private lenders.

In other words, I think the SBA should work in conjunction with private lenders and let them make the basic credit decisions.

Also, I think the States can play a role in this. Exhibit 6, I have suggested, and it did get on our legislative agenda here in the State of Illinois, that the State provide a funding program that would take and guarantee half the banks' unguaranteed portion in the intercity, which would then cut the banks' exposure down to 5 percent. I would think that many banks then could—gee, on a $100,000 loan, they would only be on the hook for $5,000. I think that would be a great way, especially—and I support the enterprise theory concept, and that is part of the attachments here. I think that would really help support start-ups, renovations, and expansions, especially in the intercity.

In conclusion, I think it must be remembered that small business is a major job creator, and the most bang for the buck can be obtained through legislation that lets small business retain and have access to capital.

Thank you very much.

Mr. MITCHELL. Thank you. It is very good, provocative testimony.

Unfortunately, the present law permits the Administrator of the SBA to be flexible within certain ranges, in terms of the guarantee program.

Congressman Savage and I fought very hard for a flat 90 percent across the board. We simply knew that the smaller banks could not participate in this program if it dropped down to 70.

By the way, for your enlightenment, some of the more sagacious members of the committee have recommended participation now to 50 percent, which would have just zapped the whole program, which is ridiculous.

I hope you are familiar with what we have done as of now, and I have to say it that way because everything is still influx. We have retained the 90-percent guarantee up to $100,000, I believe. And above that, there is discretion up to $500,000—up to 70, from 90 down to 70; is that right?

Mr. CLARK. Yes.

Mr. MITCHELL. Which I still don't like. I think that 90 percent is far better.

Mr. DOENCH. In other words, they can do 90 percent at each individual district director's discretion.

Mr. **Mitchell**. Well, this is one of the problems. I think it has got to be at the discretion of the central administration; isn't that right?

Mr. **Clark**. After you get above $150,000, you have to go to central anyway.

Mr. **Mitchell**. Yes. I think that is the way we last worded it, that above $100,000, the discretion had to be at the central office rather than at the local office. I may be wrong on that, but——

Mr. **Clark**. You are right on the theory.

Mr. **Mitchell**. OK.

But, anyway, I want to go on record saying that we both fought for a retention of the flat 90-percent guarantee, because it makes much more sense.

I would appreciate it if you would, when you submit this other material to us——

Mr. **Doench**. There are the exhibits. I think I sent some exhibits to Congressman Savage's office. Maybe they didn't get a chance to make copies of them.

Mr. **Mitchell**. What I would also like is your thoughts on who bears the major responsibility in franchising for the loan that might be made through the bank. Should the burden fall on the franchiser or the franchisee?

Mr. **Doench**. The franchiser.

Mr. **Mitchell**. I would appreciate it if you would reduce that to writing and give us your thoughts on that.

Mr. **Doench**. I would be glad. I think the franchiser can basically service the loan, because they are getting a royalty and they know quickly if something is going wrong. Good franchisers such as McDonalds has never been in default. It creates a lot of entry level jobs.

The oil companies, of course, which is one of the things that the Rosenthal hearings talked about, the service stations and things that had a high default factor, but I think for the most part, from what I can gather in talking to a number of people, that the franchise companies that are a part of the IFA and have had a good track record, basically have a good track record with the SBA. Maaco, I think has had a good track record. It does provide entry level jobs.

Mr. **Mitchell**. Very quickly, for your information under what can be done, to be the best of my knowledge, both tax bills deal with the graduated corporate income tax under $500,000, both House and the Senate bill. Both deal with the capital cost recovery. I think both are in agreement on the estate tax changes, and tax credit for initial investments in small business.

I am not certain as your No. 5 recommendation——

Mr. **Doench**. I think that is probably on hold, for the small business participating——

Mr. **Mitchell**. That is tax incentives such as this small business participating debenture. I am not sure that is in our tax bill.

Mr. **Doench**. No. It was in an omnibus bill, I think, but I don't think that is going to come around this time.

Mr. **Clark**. The small business participating debenture tax concept has just now come to light in terms of legislation being introduced last week.

Mr. **Doench**. Well, that is an interesting concept. Although, once again, I think Arthur Anderson pointed in an article in Forbes that it will only help 2,000 businesses, which isn't very many, but we will take anything we can get.

Mr. **Mitchell**. Thank you for being patient.

Congressman Savage?

Mr. **Savage**. Just one question: Does the Chicago Association of Commerce and Industry—does it have any kind of program to help minority enterprises?

Mr. **Doench**. We have just started within our small business council—we have just organized a group that will provide seminars from supposed qualified folks——

Mr. **Savage**. No. I mean, other than talk?

Mr. **Doench**. Yes; we are going to——

Mr. **Savage**. I mean lectures. Other than that, for advice.

Mr. **Doench**. They are going to provide people that have run businesses to show people how to set up inventory control, free.

Mr. **Savage**. No. I meant other than advice and lectures, and so forth, other than talk.

Mr. **Mitchell**. Any money?

Mr. **Savage**. Help in some way, other than lectures and advice and shows.

Mr. **Doench**. I think lectures and things are a help.

Mr. **Savage**. I agree with you. In addition, do you have any kind of program other than just giving minority businesses advice and lectures and what have you?

Mr. **Doench**. Not that I am aware of.

Mr. **Savage**. Why I ask is, I wondered if there was any place in your interest in development of business to relate to the problems of Columbia Rustproofing. That is what I really wanted to get. You were here when——

Mr. **Doench**. Yes, I was here, sure. I can't believe that.

Mr. **Savage**. That is incredible, isn't it? I thought that you just might be interested. You seem to have a social conscience. Do you think you could interest your association in the problems of Columbia Rustproofing?

Mr. **Doench**. They should talk to our staff director, Herb Carroll, who runs the small business council.

Mr. **Mitchell**. What is his last name?

Mr. **Doench**. Herb Carroll.

Mr. **Savage**. Could you help to put the two together?

Mr. **Doench**. Sure.

Mr. **Savage**. Very good. Mr. Johnson is still here.

Mr. **Johnson**. We have talked with the Department of Commerce and Industry on several occasions. You know, this is just the same old place.

Mr. **Savage**. OK. Thank you, Mr. Johnson.

Mr. **Mitchell**. Thank you. That was very good testimony. I appreciate it.

Mr. **Doench**. I hope my exhibits are here. I sent them down to your office. If you would like, I will send you some more.

Mr. **Savage**. I will tell you in a couple of minutes.

[Mr. Doench's prepared statement follows:]

## PREPARED STATEMENT OF ROBERT M. DOENCH, CHAIRMAN, SMALL BUSINESS COUNCIL, CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

This statement will primarily focus on the access to capital problem faced by small businesses not only in Chicago and Illinois but nationally. Without sufficient capital no business large or small can operate.

Having been an elected delegate to the 1980 White House Conference on Small Business, I was proud to be a part of that unique gathering which concerned itself with the problems of small business. Of the 15 highest priority recommendations, 5 dealt with capital formation and retention. Thus, it is apparent that capital is the highest priority of the majority of small business regardless of the background of the owner.

The retention problem can most effectively be addressed by tax reform. However, capital formation and/or access to capital is another matter. The pursists feel that the budget cuts will reduce the U.S. Treasury's giant appetite for funds and because of this, there will suddenly become a flood of capital available to business in general, with small business being a major beneficiary.

I think not. Quite to the contrary, capital has become and is becoming more concentrated. Trends now taking place in the financial industry underscore this point even more and will put bank loans which are vital to the maintenance and growth of the private sector even more out of reach of small business. As these institutions merge and create national entities they will lend primarily to larger businesses. This is amply demonstrated in the past two months as over $20 billion has been borrowed by large Fortune 500 Companies to buy each other. I would say that these massive mergers will not create one new plant or one new job, though they have borrowed an amount five times greater than SBA's proposed guaranty budget for fiscal year 1982.

Yet small business, and especially those firms with less than 20 employees, create nearly 90 percent of all new private sector jobs and most of the entry level jobs. However, they do not have access to national financial markets. They are also being deprived of access to long-term debt because of banks reticence to make term loans which is further exacerbated by capital concentration.

However, small business depends on short-term debt, but both the current cost and difficulty in obtaining capital affects the ability of small business to plan. It has also caused and will contine to cause liquidity and survival problems which mean little or no expansion of that part of the economy which creates the majority of new jobs.

### WHAT CAN BE DONE?

The five White House Conference capital formation and retention recommendations should be implemented as follows: (1) Graduated corporate income tax up to $500,000; (2) capital cost recovery; (3) estate tax changes to encourage continuity of family ownerships; (4) tax credits for initial investments in small business; (5) tax incentives such as a small business participating debenture.

The first three items have been widely debated and need no further mention. Items 4 and 5 address themselves to making small business a quasi-tax sheltered investment to replace the many schemes now allowed which are nonproductive.

The SPBD proposal was discussed in an article in the May 25th issue of Forbes. An official of Arthur Anderson estimated that there are about 2,000 small businesses that could initially utilize the SPBD averaging about $250,000 of debt. That would be $500 million of capital and while only a drop in the bucket, it would be welcomed as small business can use anything it can get.

### SBA

As an adjunct to the prior mentioned ideas, the SBA is already in place and substantiated by a number of bankers is working effectively. The bank guaranteed loan program in 1980 assisted nearly 30,000 small businesses in obtaining sorely needed term capital.

I can say it is working effectively because with the many improvements in the program in the past few years, more and more banks and a number of nonbank lenders are utilizing the program to such an extent that with the hold, which I understand was recently lifted on guaranty authority put in place by the new administration, a number of successful SBA District Offices, Chicago included, were in jeopardy of running out of gurantee authority.

Thus, this long abused, often misunderstood program is finally working primarily because the emphasis has been shifted to bank guarantees which permit qualified lenders to do most of the work, especially through the Certified Lender Program.

An expansion of the CLP was one of WHC 60 recommendations as a way of making the SBA more efficient and effective.

From talking to a number of lending institutions who utilize the program (see exhibits 1, 2, & 3) they are not using the program as a last resort nor in my opinion should the SBA be a lender of last resort but are using the program to give qualified borrowers a longer term payback. This, in effect, effectively lowers interest rates and permits the small business to have an affordable monthly payment to weather the current high interest rate climate. Thus, SBA bank guaranty authority should not be cut but increased as it is a very inexpensive method of maintaining and creating jobs (see exhibits 4 and 5).

Mr. **MITCHELL**. If this were not a hearing, I would ask for a round of applause for our last witness who has waited so long. But it is a hearing, so I won't call for a round of applause.

Ms. Cummings, who is the president of TLC Co. You are worn out, aren't you? It has been a long day, and we just had so many people that wanted to be heard, we just had to try to put as many on as possible. Thank you for waiting.

## TESTIMONY OF CIMENA CUMMINGS, PRESIDENT, TLC CO., INC.

Ms. **CUMMINGS**. You are welcome.

Chairman Mitchell, Mr. Savage, I would like to thank you for the honor of speaking before the House Small Business Committee.

My name is Cimena Cummings, and I am president of TLC Co., Inc. We are a manufacturing firm that I started approximately 6 years ago in my basement. We employ 27 people, 18 of which are head of households.

Just to set the record straight about the Small Business Administration, I am here to say that I think they are doing a good job. Of course, they need help in a few areas that I am going to suggest in my paper, but I think overall most of us would agree that, with a few changes, they could be a very viable organization.

I participate in the PAS program, and we have gotten contracts through the PAS program. I think that we have a good rapport. One of those people that Donna Harrigan was talking about when she said that, "You can come to my office," I feel that I could also go to Jack's office. The reason that I feel this is because we have developed a rapport with SBA. We have taken the time, and it requires an awful lot of time to go down and meet the various people and develop that type of rapport.

On Thursday, June 25, a group of us met, the concerned 8(a) firms for region V, in reference to the 8(a) program. Though I have been asked to give concluding remarks of this session, we have covered quite a few areas in minority business that have problems, as has been proven by the past testimony that we had on the various types of problems that minorities have.

So I am going to limit my testimony to basically two areas, and that is the proposed changes that are in the process of diluting the 8(a) program and the merits of maintaining and broadening the 8(a) program for minority business development.

When we met on June 25, we met with this purpose: To evaluate the critical effects of the attack by the Reagan administration and major corporations on the Small Business Administration's 8(a) program.

The 8(a) program for minority business development was developed during the Nixon administration approximately 12 years ago, the concept. It has been under attack for most of its existence.

However, the most critical attack has occurred in recent months under the Reagan administration. From all indications, the handwriting is on the wall in terms of the program's longevity, and if it is continued, it is doubtful whether it will be effective or not.

Its intent, as described in the 8(a) program paragraph, "Standard Operating Procedures," SOP Manual, is to provide a network for small firms to obtain contracts with the Government agencies without competing with large companies and major manufacturers, which is a no-win situation.

We have asked ourselves: How can a small firm compete with the big giants, as they are the controllers of supply, they are the ones who set the prices, and they are the ones that set the market trends? Obviously, we can't. And the Reagan administration knows this. So do the large firms who are pressuring the Government to do away with the program.

The 8(a) program, as expressed by Congress and Public Law 95-507, is designed to regress past wrong against certain segments of our society which have suffered the effects of discrimination or similar circumstances. These wrongs have not been made right. The 8(a) program is the only mechanism which provides an opportunity for minorities to participate in the Federal procurement process.

Small business is the backbone of our country. In Public Law 95-507, instituting the 8(a) program, Congress was concerned about the growth of small business. Small business is the source of the majority of the employment in this country. Through Public Law 95-507, Congress expressed serious concern that the assistance to minority business was essential to the free enterprise system. The 8(a) program develops viable businesses.

In September 1979, the Inspector General of the Small Business Administration investigated the 8(a) program's eligibility procedures and all 1,505 companies. While there was some abuse, the vast majority of the companies were problem free.

In May 1980, the Federal General Accounting Office issued a report to Congress recognizing that 95 percent of all reported abuse had been eliminated, and that SBA had initiated procedures to prevent further abuse.

In addition to that, we felt that the problems should be corrected, and the program should be expanded to include other firms.

Two: The Small Business Administration should be required to comply with the will of Congress, as expressed in Public Law 95-507.

Three: Management of the program should be improved and strengthened.

Four: Those abusing the program, whether program participants, or civil servants administering the law, should be punished by fines or imprisonment or both, if found guilty.

Five: If firms are denied support and assistance, SBA must share or bear the blame, not the 8(a) firms who are seeking parity and are doing a good job for the Federal Government.

Six: The Small Business Administration should develop a multitier graduation program in conjunction with the minority business community. A monitoring of 8(a) firms should be done to determine when they are stable and ready for graduation, after a minimum of 8 years.

Seven: The Small Business Administration should be more accountable for identifying contracts for 8(a) firms, but also helping them to increase their private sector business.

Eight: The Small Business Administration should be given the resources it requires, rather than constantly being criticized for not being able to do the job.

The Government presently allocates less than 2 percent of their procurement to minority business. The amount of 1-plus percent should be increased to a minimum of 10 percent of their total procurement. The 8(a) contracts are presently set aside by the Small Business Administration, just as contracts are set aside for nonminority businesses, sole-source big businesses, or direct procurement contracts are done.

Ninety-two percent of the largest agency, the Defense Department's contracts are noncompetitive, sole-source contracts for selected nonminority-owned businesses. Big businesses are given these contracts and do not have to bid with other big businesses doing the same type of work. Only 8 percent of the Defense Department procurement results in advertised bids, according to Jack Anderson of the Post.

Therefore, the set-aside program has obviously worked well for all size businesses.

Some 8(a) contracts are competitive bids, and some are set-asides, as is done for big business. All 8(a) contracts are negotiated in accordance with thorough procurement regulations by highly skilled Government contractors and negotiators. Earned fees are rigidly controlled.

The Small Business Administration does not identify potential contractors and match them with portfolio companies. Successful 8(a) firms obtain contracts through self-marketing. That is how we obtain our contracts, through self-marketing. They identify opportunities and advise the Small Business Administration of the opportunities. If the Small Business Administration agrees, contracts are then negotiated after the 8(a) firm submits an acceptable technical proposal to the procuring agency.

The Small Business Administration task force, in 1977, headed by Mr. William J. Carey, currently head of the Central Intelligence Agency, concluded that the life cycle of a new business spans 10 to 20 years before maturity. Dr. James Walters and Dr. Hans Shule of the Wharton School reiterated this finding in 1980.

In June 1981, Dr. Walters appeared before the House Small Business Committee to restate this opinion and further state this was true for all business and no less true of 8(a) firms.

Dr. Daniel C. Montanto, president of Montanto Security Corp., also testified before the House Small Business Committee on June 10, 1981, stating that all of the efforts of the 8(a) program are useless unless the program allows the companies adequate time to become financially solvent and adequately capitalized before the completion of the program.

We feel Congress intended to expand and improve Public Law 95-507 by passing Public Law 96-481. They had no intention of putting a 3- to 5-year time limit on each firm, because this would be inconsistent with normal business cycles in today's economy.

Congress stated and sent a report, 96-974, that there was not sufficient data to set time limits and that the SBA should compile this data. However, SBA has set time limits that are very harmful to the 8(a) firms, without sufficient documentation to support their position.

Public Law 96-481 was intended to help the program to develop firms to a graduation stage, that would allow each firm to operate and prosper independently of the 8(a) program. It was designed to improve the quality of the 8(a) program, not to have SBA impose harmful restrictions on the firms.

We wholeheartedly disagree with President Reagan, who was reported to have implied in a recent press conference that minority businesses should focus in minority communities. How can minority support a minority community business when they are unemployed? Does this mean minority firms will be allowed to pay taxes only to the minority community they serve?

We believe that the taxes paid us afford us an automatic right to demand an equitable return on our investment. The 8(a) program created 32,000 jobs at an initial cost of approximately $3,200 each and returns an equal amount to the Government in taxes each year every year. The 8(a) program pays for itself over and over again.

When equating this to $13,000 lost every year to support an inmate or $25,000 lost per year for unemployed workers, the 8(a) program should be commended and protected, because it reduces unemployment and contributes to the support of the Nation. Jobs are created, taxes are paid, communities benefit.

We also disagree with major corporations that state the 8(a) program has taken business away from. Studies have indicated that foreign industries are the prime culprits that are affecting our economy, and not the small firms.

The Federal Government presently set aside over 98 percent of their total contracts to big business. Let me reiterate: over 98 percent. This was taken from Progress Magazine. It is amazing how big business is fighting to also receive the meager less than 2 percent that has been allocated to the minority firms.

The congressional intent of the 8(a) program was to promote business development and to improve the competitive viability of minority small business firms. The intent of Congress, as expressed in Public Law 95-507, recognized that the opportunity for full participation by the disadvantaged is essential, that members of certain groups have suffered the effects of discrimination or similar circumstances. That it is in the national interest to ameliorate these conditions. That conditions can be improved by providing maximum opportunities, that development can be materially advanced by providing access to Federal procurement. That such procurement encourages expansion of suppliers and encourages competition.

Big business is attacking the 8(a) program through the Reagan administration to obtain the less than 2 percent that has been allocated to minorities, that are doing a good job for the Federal Government. This is obviously a deliberate attempt by big business to obtain all, or 100 percent of the Federal procurement instead of the present 98 percent.

As you mentioned, Mr. Mitchell, earlier, they are again attempting to annihilate the little man, eliminate the competition, and thus cause a monopoly. In other words, all the money will be in the hands of a very few large businesses.

This is a serious state of affairs and a major threat to all of us, to the economic base of this country. A counterattack is critical to the survival of small business and to the free enterprise system in the United States.

I implore your support in this most serious effort to offset this vicious campaign to irradicate the small minority firms who only hope to have parity and, thus, truly participate in the economic system of our country.

Thank you.

Mr. MITCHELL. Thank you.

This entire hearing will be written up, that is why we have a reporter here. Every member of the House Small Business Committee will get a copy of that report. And more than likely, every Member of Congress will get a copy of that report.

Although that is true, I wish that the entire Small Business Committee could have been here today to have heard your testimony, which I think was singularly eloquent and sophisticated. It really was just excellent testimony.

I have just one question, but I will ask Congressman Savage if he has questions first?

Mr. SAVAGE. The attitude of praise for your statement is unanimous.

Mr. MITCHELL. My one question, and you didn't touch on this testimony, but some are advancing the idea that the more sophisticated 8(a) firms, those that have shown some growth, might enter into some form of competition one with each other for Federal contracts.

What are your thoughts on that?

Ms. CUMMINGS. I think that the more sophisticated 8(a) firms are so few in number, usually there are perhaps just one or two—in my instance, we are the only minority in the country in this field. So we wouldn't have competition.

And in the other larger firms, I don't really think that there is a lot of duplication.

Mr. MITCHELL. For example, we have seen an increased number of black manufacturing firms, and some of them are fairly sophisticated. I don't believe they are ready for complete graduation yet.

Ms. CUMMINGS. Oh, no.

Mr. MITCHELL. But I think they are fairly sophisticated.

Some people are talking about having competition at that level. What would your reaction be?

Ms. CUMMINGS. I think we have enough competition with the white firms, rather than competing among ourselves.

Mr. MITCHELL. I sort of anticipated your answer, but I wanted it on the record.

Thank you very much.

Ms. CUMMINGS. You're very welcome.

**Mr. Mitchell.** I want to thank all of you for bearing with us all day today. I have made a serious mistake. I committed myself to four hearings a year out in the field. The Small Business Committee had not been doing this. I think it is necessary that it be done; but the mistake comes in that after we finish each hearing, we have got enough work piled on us to last for the next 3 months.

But we are willing to do it. If it helps at all the cause of minority and small business, we are perfectly willing to do it.

Thank you very, very much for what I consider a very productive and enlightening hearing.

Congressman Savage, do you have a closing remark?

**Mr. Savage.** I wanted to say good night, and I am overjoyed at your response and support of this effort and the quality, the very high quality of your testimony.

**Mr. Mitchell.** With that, this hearing now stands adjourned.

[Whereupon, at 5:40 p.m., the subcommitee adjourned, to reconvene subject to call of the Chair.]

○